HSBC HOLDINGS PLC
Form 6-K
August 07, 2014
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FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a - 16 or 15d - 16 of

the Securities Exchange Act of 1934

For the month of August 2014

Commission File Number: 001-14930

HSBC Holdings plc

42nd Floor, 8 Canada Square, London E14 5HQ, England

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F).

Form 20-F x Form 40-F ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ¨

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934).

Yes ¨ No x

(If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-).

This Report on Form 6-K with respect to our Interim Financial Statements and Notes thereon for the six-month period ended June 30, 2014 is hereby incorporated by reference in the following HSBC Holdings plc registration statements: file numbers 333-10474, 333-92024, 333-102027, 333-103887, 333-104203, 333-109288, 333-113427, 333-127327, 333-126531, 333-135007, 333-143639, 333-145859, 333-155338, 333-158054, 333-158065, 333-162565, 333-17025, 333-176732, 333-180288, 333-183806 and 333-197839.

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 6-K and that it has duly caused and authorized the undersigned to sign this interim report on its behalf.

HSBC Holdings plc

By: /s/ Iain J Mackay
Name: Iain J Mackay
Title: Group Finance Director

Dated: 7 August 2014

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HSBC HOLDINGS PLC

Interim Report 2014

Certain defined terms

Unless the context requires otherwise, HSBC Holdings means HSBC Holdings plc and HSBC , the Group , we , us and our refer to HSBC Holdings together with its subsidiaries. Within this document, the Hong Kong Special Administrative Region of the People s Republic of China is referred to as Hong Kong . When used in the terms shareholders equity and total shareholders equity , shareholders means holders of HSB Holdings ordinary shares and those preference shares classified as equity. The abbreviations US$m and US$bn represent millions and billions (thousands of millions) of US dollars, respectively.

Interim financial statements and notes

HSBC s Interim Consolidated Financial Statements and Notes thereon, as set out on pages 206 to 268, have been prepared in accordance with the Disclosure Rules and Transparency Rules of the Financial Conduct Authority and International Accounting Standard (IAS) 34 Interim Financial Reporting as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU). The consolidated financial statements of HSBC at 31 December 2013 were prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the IASB, and as endorsed by the EU. EU-endorsed IFRSs may differ from IFRSs as issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. At 31 December 2013, there were no unendorsed standards effective for the year ended 31 December 2013 affecting the consolidated financial statements at that date, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to HSBC. Accordingly, HSBC s financial statements for the year ended 31 December 2013 were prepared in accordance with IFRSs as issued by the IASB. At 30 June 2014, there were no unendorsed standards effective for the period ended 30 June 2014 affecting these interim consolidated financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to HSBC.

HSBC uses the US dollar as its presentation currency because the US dollar and currencies linked to it form the major currency bloc in which HSBC transacts and funds its business. Unless otherwise stated, the information presented in this document has been measured in accordance with IFRSs.

When reference to underlying is made in tables or commentaries, the comparative information has been expressed at constant currency (see page 19), the impact of fair value movements in respect of credit spread changes on HSBC s own debt has been eliminated and the effects of acquisitions, disposals and dilutions have been adjusted as reconciled on page 22. Underlying return on risk-weighted assets (RoRWA) is defined and reconciled on page 43.

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1 *Detailed contents are provided on the referenced pages.*

Cover images: internationalisation of the renminbi

The images show the views from HSBC s head offices in Shanghai, Hong Kong and London the three cities that are key to the development of China s currency, the renminbi (RMB). The growth of the RMB is set to be a defining theme of the 21st century. HSBC has RMB capabilities in over 50 countries and territories worldwide, where our customers can count on an expert service.

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HSBC HOLDINGS PLC

Overview

Who we are

HSBC is one of the largest banking and financial services organisations in the world.

Customers:

52 million

Served by:

256,000 employees

Through four global businesses:

Retail Banking and Wealth Management

Commercial Banking

Global Banking and Markets

Global Private Banking

Located in:

74 countries and territories

Across five geographical regions:

Europe

Asia

Middle East and North Africa

North America

Latin America

Offices:

Over 6,200

Global headquarters:

London

Market capitalisation:

US$193 billion

Listed on stock exchanges in:

London

Hong Kong

New York

Paris

Bermuda

Shareholders:

216,000 in 129 countries and territories

Our purpose

Our purpose is to be where the growth is, connecting customers to opportunities, enabling businesses to thrive and economies to prosper, and ultimately helping people to fulfil their hopes and realise their ambitions.

Our strategic priorities

We aim to be the world s leading and most respected international bank. We will achieve this by focusing on the needs of our customers and the societies we serve, thereby delivering long-term sustainable value to all our stakeholders.

We have established three interconnected and equally weighted priorities for 2014 to 2016 to help us deliver our strategy:

- grow the business and dividends;
- implement Global Standards; and
- streamline processes and procedures.

Each priority is interrelated, complementary and underpinned by initiatives within our day-to-day business. Together they create value for our customers and shareholders, and contribute to the long-term sustainability of HSBC.

How we measure performance

We track our progress in implementing our strategy with a range of financial and non-financial objectives which are set within the context of the risk appetite and strategic direction agreed by the Board. Specific targets have been set for the period 2014 to 2016 at both a Group level and for each of our global businesses and regions.

Rewarding performance

The remuneration of all staff within the Group, including executive Directors, is based on the achievement of financial and non-financial objectives, which are aligned with the Group s strategy. To be considered for a variable pay award, an individual must have fully complied with HSBC Values.

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HSBC HOLDINGS PLC

Overview (continued)

Highlights

- Profit before tax was down 12% at US$12.3bn on a reported basis. Underlying profit before tax was down 4% at US$12.6bn.
- We continued to implement our three strategic priorities to grow the business and dividends, implement our Global Standards programme, and streamline our processes and procedures.
- CRD IV end point basis common equity tier 1 ratio was 11.3%, 0.4% higher than at the end of 2013.

For the half-year to 30 June 2014

Profit before taxation (Reported basis) (US$bn)	*Underlying profit before taxation (US$bn)*	*Profit attributable to the ordinary shareholders of the parent company (US$bn)*	*Earnings per share (US$)*
Dividends per ordinary share (in respect of period) [1] *(US$)*	*Dividend payout ratio (%)*	*Cost efficiency ratio*[2] *(%)*	*Loan impairment charges to total operating income (%)*

At 30 June 2014

Total equity (US$bn)	*Total assets (US$bn)*	*Loans and advances to customers*[3] *(US$bn)*	*Customer accounts*[3] *(US$bn)*

For footnotes, see page 96.

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HSBC HOLDINGS PLC

Overview (continued)

Annualised return on average ordinary shareholders equity[4]	*Post-tax return on average total assets*	*Ratio of customer advances to customer accounts[3]*
(%)	*(%)*	*(%)*
Half-year to:	Half-year to:	

Capital, leverage and return ratios

Common equity tier 1 ratio (end point)	*Common equity tier 1 ratio (year 1 transition)*	*Total capital ratio (year 1 transition)*	*Risk-weighted assets*
(%)	*(%)*	*(%)*	*(US$bn)*

Core tier 1 ratio	*Total capital ratio*	*Risk-weighted assets*
(%)	*(%)*	*(US$bn)*

Pre-tax return on average RWAs[6]	*Estimated leverage ratio[7]*
(%)	*(%)*
Half-year to:	

Share information at 30 June 2014

		Closing market price		
US$0.50 ordinary shares in issue	**Market capitalisation**	London	Hong Kong	American Depositary Share[8]
19,071m	US$193bn	£5.93	HK$78.60	US$50.80

		30 Jun 2013: £6.82	30 Jun 2013: HK$81.25	
30 Jun 2013: 18,627m	30 Jun 2013: US$196bn	31 Dec 2013: £6.62	31 Dec 2013: HK$84.15	30 Jun 2013: US$51.90
31 Dec 2013: 18,830m	31 Dec 2013: US$207bn			31 Dec 2013: US$55.13

	Total shareholder return[9]		
	Over 1 year	Over 3 years	Over 5 years
To 30 June 2014	92	112	149
Benchmark:			
MSCI Banks[10]	110	126	164

For footnotes, see page 96.

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HSBC HOLDINGS PLC

Overview (continued)

Cautionary statement regarding forward-looking statements

The *Interim Report 2014* contains certain forward-looking statements with respect to HSBC s financial condition, results of operations and business.

Statements that are not historical facts, including statements about HSBC s beliefs and expectations, are forward-looking statements. Words such as expects , anticipates , intends , plans , believes , seeks , estimates , potential and reasonably possible , variations of these words and expressions are intended to identify forward-looking statements. These statements are based on current plans, estimates and projections, and therefore undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made. HSBC makes no commitment to revise or update any forward-looking statements to reflect events or circumstances occurring or existing after the date of any forward-looking statements.

Written and/or oral forward-looking statements may also be made in the periodic reports to the US Securities and Exchange Commission, summary financial statements to shareholders, proxy statements, offering circulars and prospectuses, press releases and other written materials, and in oral statements made by HSBC s Directors, officers or employees to third parties, including financial analysts.

Forward-looking statements involve inherent risks and uncertainties. Readers are cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statement. These include, but are not limited to:

- changes in general economic conditions in the markets in which we operate, such as continuing or deepening recessions and fluctuations in employment beyond those factored into consensus forecasts; changes in foreign exchange rates and interest rates; volatility in equity markets; lack of liquidity in wholesale funding markets; illiquidity and downward price pressure in national real estate markets; adverse changes in central banks policies with respect to the provision of liquidity support to financial markets; heightened market concerns over sovereign creditworthiness in over-indebted countries; adverse changes in the funding status of public or private defined benefit pensions; and consumer perception as to the continuing availability of credit and price competition in the market segments we serve;

- changes in government policy and regulation, including the monetary, interest rate and other policies of central banks and other regulatory authorities; initiatives to change the size, scope of activities and interconnectedness of financial institutions in connection with the implementation of stricter regulation of financial institutions in key markets worldwide; revised capital and liquidity benchmarks which could serve to deleverage bank balance sheets and lower returns available from the current business model and portfolio mix; imposition of levies or taxes designed to change business mix and risk appetite; the practices, pricing or responsibilities of financial institutions serving their consumer markets; expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership; changes in bankruptcy legislation in the principal markets in which we operate and the consequences thereof; general changes in government policy that may significantly influence investor decisions; extraordinary government actions as a result of current market turmoil; other unfavourable political or diplomatic developments producing social instability or legal uncertainty which in turn may affect demand for our products and services; the costs, effects and outcomes of product regulatory reviews, actions or litigation, including any additional compliance requirements; and the effects of competition in the markets where we operate including increased competition from non-bank financial services companies, including securities firms; and factors specific to HSBC, including our success in adequately identifying the risks we face, such as the incidence of loan losses or delinquency, and managing those risks (through account management, hedging and other techniques). Effective risk management depends on, among other things, our ability through stress testing and other techniques to prepare for events that cannot be captured by the statistical models it uses; and our success in addressing operational, legal and regulatory, and litigation challenges, notably compliance with the DPAs.

Overview (continued)

Group Chairman s Statement

In the first half of 2014, against a backdrop of continuing low interest rates and reduced financial market volumes, HSBC produced a suitably well-balanced financial performance. This was achieved while continuing to invest significant time and resources in reshaping the Group to meet the heightened and evolving expectations of our regulators and of the communities we serve. At a time of residual concerns over the sustainability of economic growth in many major markets and with heightened geopolitical tensions apparent, the Board supported management s view that this was not the time to expand risk appetite to offset the effect of lower revenues arising from business disposals and legacy portfolio run-off.

Pre-tax profits on a reported basis were US$12.3bn, US$1.7bn or 12% less than in the first half of 2013. On an underlying basis, profit before tax was 4% behind the comparable period, with the major business contributor being lower revenues from traded markets. Earnings per ordinary share were US$0.50 (2013: US$0.54), amply covering the first two dividends in respect of 2014 of US$0.20, which were consistent with those of last year at the same stage.

These results illustrate the challenge of funding a considerable expansion of Risk and Compliance resources as well as the operational and structural changes needed to address new regulatory and public policy requirements at a time of limited revenue growth opportunities. That we have been able to hold growth in underlying costs to 2% is attributable to further good progress with regard to systems and process re-engineering and simplification, as well as continuing cost discipline.

Business disposals and portfolio run-off do, however, contribute positively to internal capital generation. This, together with capital

generated from operating performance and the benefit of scrip dividends, contributed to a further strengthening of the Group s capital position. At 30 June 2014, our end point common equity tier 1 ratio improved to 11.3% compared with 10.9% at the beginning of the year and 10.1% a year ago.

The Group Chief Executive s Business Review draws out the highlights of business performance in the first half of 2014. I want to highlight three points which arise both from industry and our own re-shaping.

Execution challenges are necessarily the primary focus of Board oversight

The demands now being placed on the human capital of the firm and on our operational and systems capabilities are unprecedented. The cumulative workload arising from a regulatory reform programme that is unfortunately increasingly fragmented, often extraterritorial, still evolving and still adding definition is hugely consumptive of resources that would otherwise be customer facing. Add to this recent obligations to perform highly granular multiple stress tests which are inconsistent in definition and scenarios between major jurisdictions and so require considerable duplication of effort; recently announced significant wholesale market practice and competition reviews in the UK; reorganising the financial, operational and structural framework of the Group to respond to evolving thinking on cross-border resolution protocols; and, finally, planning what will be a multi-year project to separate and establish the ring-fenced bank in the UK, and the dimension of the execution risk is obvious.

To be clear, we are committed and resourced to deliver all of the above. But there is extremely limited spare capacity. Prioritisation, which is clearly critical, will require support and guidance from public policy and regulatory bodies, particularly in the UK, regarding the juxtaposition of the recently announced competition review and preparation for the creation of the ring-fenced bank. Equally important is delivery of the stated intention of the Financial Stability Board and the G20 to seek to draw a close on fresh regulatory initiatives by the end of this year.

Retention of our human capital is essential

Following on from the above it is also obvious how critical it is that we retain the goodwill and commitment of all of our staff as we plan and deliver the above transformation agenda alongside business as usual support for our customers in satisfying their business and personal needs. I do not think we have ever had to ask so much of so many. The commitment

Overview (continued)

and loyalty we receive is recognised with deep gratitude by executive management and the Board. We cannot, however, be complacent that this can be taken for granted. We face growing fatigue within critical functions as well as increased market competition for trained staff from other financial institutions facing similar resource challenges. This is adding to cost pressures both from increased salaries as market rates increase, and from investment in training and systems support to improve productivity. This underscores the importance of finalising the regulatory reform agenda in the near term.

Growing danger of risk aversion and financial exclusion

We continue to make good progress with implementing Global Standards, aiming to deliver a consistent approach to risk management, particularly in relation to financial crime risk. Success will be reflected in reduced incidence and severity of future customer redress and less exposure to regulatory and legal penalties. Recent high profile financial penalties and legal proceedings initiated against individuals are serving their intended purpose of highlighting the risks, both to shareholders capital and to staff held responsible, of future infringement. Today, no one in our industry can fail to be aware of the heightened expectations of society regarding the role of banks in supporting economic activity; nor can they be unaware of the potential penalties for failing to live up to these expectations, particularly regarding conduct issues or breach of trust.

Greater focus on conduct and financial crime risks at all levels of the firm globally is clearly the right response to past shortcomings. There is, however, an observable and growing danger of disproportionate risk aversion creeping into decision-making in our businesses as individuals, facing uncertainty as to what may be criticised with hindsight and perceiving a zero tolerance of error, seek to protect themselves and the firm from future censure. We can address this behaviour through training and leadership, but we also need clarity from public policy and regulatory bodies over their expectations in this regard. Unwarranted risk aversion threatens to restrict access to the formal financial system to many who could benefit from it and risks unwinding parts of the ecosystem of networks and relationships that support global trade and investment.

Board changes

Since we reported to shareholders at the Annual General Meeting there have been two further changes to the Board, both announced on 1 August.

We are delighted to welcome Heidi Miller to the Board and to the Group Risk and Conduct & Values Committees with effect from 1 September. Heidi brings to the Board extensive international banking and finance experience developed in a career spanning over 30 years in some of the largest and most complex banking organisations.

As President of International at JPMorgan Chase & Co. from 2010 to 2012, Heidi had responsibility for leading the bank s global expansion and international business strategy across the Investment Bank and Asset Management divisions, as well as for the Treasury and Securities Services division, which she had run for the previous six years. Other former roles include Chief Financial Officer at both Bank One Corporation and Citigroup Inc.

Marvin Cheung, who has decided to retire for personal reasons, will be sorely missed. Marvin has served on the Board and on the Audit Committee since 2009, contributing great technical accounting and audit skills as well as a deep understanding of Hong Kong and mainland China issues. On behalf of the Board I want to thank him for his contribution over many years and wish him well for the future.

Looking forward

Notwithstanding the challenges before us, I am confident that the business model outlined in the Group Chief Executive s Business Review has further potential, and that we have the leadership and capabilities throughout the firm to make the most of that potential to the benefit of all our stakeholders. Although we spend much time grappling with the technicalities of the outstanding regulatory agenda, we never lose sight of why it is urgent we implement the required changes. In summary, we need to energise our staff with the prospect of rebalancing their workloads away from looking back and away from embedding new requirements and training and on to supporting the investment needed to stimulate growth, on to the design of new products to better manage risk, on to more exciting use of the new technologies that will allow people greater and cheaper access to a wider range of well-designed financial services, and on to the innovation that will help people deal with retirement through more efficient management of, and access to, their savings and investments.

D J Flint, *Group Chairman*

4 August 2014

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HSBC HOLDINGS PLC

Overview (continued)

Group Chief Executive s

Business Review

2014 marks the start of the next phase of the implementation of our strategy. Against the backdrop of continuing regulatory change highlighted in the Group Chairman s statement, in the first six months of the year we continued to implement our three equal priorities to grow the business and dividends, implement our Global Standards programme, and streamline our processes and procedures.

Reported profit before tax was US$12.3bn, US$1.7bn lower than the equivalent period in 2013, as last year s first half benefited from higher gains from disposals and reclassifications, principally with respect to Hang Seng Bank s investment in Industrial Bank.

Underlying profit before tax was US$12.6bn, US$0.5bn lower than the prior year, and was affected by a number of significant items. Excluding these, profit before tax was US$0.4bn higher. Return on average ordinary shareholders equity was 10.7%.

Commercial Banking revenue continued to grow, with a good performance in Asia.

Global Banking and Markets, with its differentiated business model, was affected by low market volatility and client activity in our Markets business; however, we increased our market share in debt and equity capital markets, mergers and acquisitions, and lending.

Retail Banking and Wealth Management underlying revenue, excluding significant items, was lower primarily reflecting the run-off of our US Consumer Mortgage Lending portfolio. In our Principal business, also excluding significant items, underlying revenue was broadly unchanged.

Loan impairment charges fell and we continued to closely manage our costs while investing further in our Risk and Compliance functions and Global Standards, in line with our strategy.

Our capital position remained strong and our CRD IV end point basis common equity tier 1 ratio improved to 11.3% compared with the year-end position of 10.9%.

A universal bank with an unrivalled global network

The course that we first charted for the Group in 2011 to capitalise on the growth of global trade and capital flows, and economic development in developing markets remains firmly in place. These trends play naturally to the strengths of HSBC s global network and to the benefits of our universal banking model.

Between 2011 and 2013, we re-modelled the Group to meet the requirements of our strategy. This meant selling or exiting non-strategic businesses and running down our legacy portfolios, as well as changing aspects of the way we do business. Whilst we have foregone a substantial amount of revenue through this process, it has created a more coherent, logical and stronger bank with a solid platform for growth.

HSBC today is a universal bank with a presence in 74 markets, including all of the top 15 countries by GDP. Our universal banking model gives us two major advantages in our pursuit of a greater share of the market.

First, it enables us to offer an integrated service between our global businesses and geographies.

Secondly, it increases our resilience as a Group and our ability to react to local circumstances and policy developments, whilst adhering to global standards.

By emphasising the connectedness of our global businesses and our international network, and applying the benefits of our scale on a local basis, we are able to provide a service that is responsive and tailored to the needs of our clients.

The strength of this model is reflected in the naming of HSBC as the Best Emerging Markets Bank and the Best Bank in Asia at the *Euromoney* Awards for Excellence 2014.

Capitalising on our network

Our ongoing task is to apply these strengths to replace the revenue foregone as a result of the sale or closure of non-strategic businesses, the reduction of

Overview (continued)

risk in our ongoing business, the run-off of our legacy portfolios, and the adverse effect of the low interest rate environment since the financial crisis.

A large portion of this revenue has already been replaced organically, and over the next three years we will continue to invest in the higher growth areas of our business, centred on our unique international network.

This network is HSBC s biggest competitive strength. Developed over nearly 150 years, it is highly distinctive, difficult to replicate and ideally positioned for the world s top trade corridors.

A significant proportion of revenue in our global businesses arises from strategic product areas that benefit from our international network and collaboration between our global businesses.

These product areas Global Trade and Receivables Finance; Payments and Cash Management; Foreign Exchange; and renminbi services are our investment priorities for the next three years. They embody HSBC s strengths in that they cut across global businesses and rely on superior connectivity to capture market share and deliver growth and scale.

Global Trade and Receivables Finance is an area of natural strength for HSBC in which we have continued to increase our market share. In the first half of 2014, we maximised the benefits of our network to win a number of high profile deals and began to reorganise our operating platforms for Receivables Finance on a regional basis. This allows us to provide a faster, more efficient service, benefiting our clients as well as our business.

Payments and Cash Management is a strong and stable provider of profit growth for the Group. Between 2011 and 2013 we grew our market share in PCM from 8% to 10.9%. In the first half of 2014, we increased new customer mandates by 19% compared with the same period in 2013, and delivered improved client coverage, including in the United States and mainland China. Expanding our reach should enable us to improve our market position further in future periods.

In Foreign Exchange, we are investing to prepare our business for the future by upgrading our platforms. With the opportunities afforded by our network, this establishes a base that should enable us to increase our share of the foreign exchange market beyond the gains made in the first three years of our strategy. Our market share has increased to 7.1% and we are optimistic about future growth.

HSBC has a major position in renminbi services which reflects our significant presence in the major renminbi hubs of Hong Kong, London, Shanghai and Singapore. We consolidated that position in the first half of 2014. HSBC ranked first across all eight categories in *Asiamoney s* Offshore RMB Poll 2014 and was voted the Best Overall Offshore RMB Products/Services provider for the third successive year.

Our investment in these products is supported by investment in countries that bridge trade and capital flows such as Germany, the United States and mainland China and large city clusters which contain deep international revenue pools.

We believe this investment will lead to growth in profits and increased dividends for our shareholders. We are pursuing these alongside our equal priorities to implement our Global Standards programme and streamline our processes and procedures.

Business outlook

We remain broadly positive about the economic outlook for the majority of our home and priority markets. The UK in particular should maintain a firm recovery. We have slightly increased our forecasts for mainland China GDP growth in 2014 to 7.5% and expect Hong Kong to benefit from export growth in the second half of the year. Growth in Latin America remains muted. Our Middle East business continues to perform well, albeit overshadowed by regional uncertainties.

There are indications that interest rates could start to rise as early as the fourth quarter of 2014 in the UK and the first half of 2015 in the US, which given the size of our commercial surplus has positive implications for our revenues.

Whilst regulatory uncertainty persists, our balance sheet remains strong. Our ability to generate capital continues to support our progressive dividend policy. We remain well placed to meet expected future capital requirements, to continue to deliver an attractive total shareholder return and to establish HSBC as the world s leading international bank.

S T Gulliver, *Group Chief Executive*

4 August 2014

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HSBC HOLDINGS PLC

Overview (continued)

Value creation and long-term sustainability

Through our principal activities making payments, holding savings, providing finance and managing risks we play a central role in society and in the economic system. Our target is to build and maintain a business which is sustainable in the long term.

How we create value

Banks play a crucial role in the economic and social system, creating value for many parties in different ways. We provide a facility for customers to securely and conveniently deposit their savings. We allow funds to flow from savers and investors to borrowers, either directly or through the capital markets. The borrowers then use these loans or other forms of credit to buy goods or invest in businesses. By these means, we help the economy to convert savings which may be individually short-term into financing which is, in aggregate, longer term. We bring together investors and people looking for investment funding and we develop new financial products. We also facilitate personal and commercial transactions by acting as payment agent both within countries and internationally. Through these activities, we take on risks which we then manage and reflect in our prices.

Our direct lending includes residential and commercial mortgages and overdrafts, and term loan facilities. We finance importers and exporters engaged in international trade and provide advances to companies secured on amounts owed to them by their customers.

We also offer additional financial products and services including broking, asset management, financial advisory services, life insurance, corporate finance, securities services and alternative investments. We make markets in financial assets so that investors have confidence in efficient pricing and the availability of buyers and sellers. We provide these products for clients ranging from governments to large and mid-market corporates, small and medium-sized enterprises, high net worth individuals and retail customers. We help customers raise financing from external investors in debt and equity capital markets. We create liquidity and price transparency in these securities allowing investors to buy and sell them on the secondary market. We exchange national currencies, helping international trade.

Value creation

Our main products and services are described in more detail on page 79 of the Annual Report and Accounts 2013.

Our operating income is primarily derived from:

net interest income interest income we earn on customer loans and advances and on our surplus funds, less interest expense we pay on interest-bearing customer accounts and debt securities in issue;

net fee income fee income we earn from the provision of financial services and products to customers less fees we pay; and

net trading income income from client driven trading activities primarily conducted in Markets, including Foreign Exchange, Credit, Rates and Equities trading.

We offer products that help a wide range of customers to manage their risks and exposures through, for example, life insurance and pension products for retail customers and receivables finance or documentary trade instruments for companies. Corporate customers also ask us to help with managing the financial risks arising in their businesses by employing our expertise and market access.

An important way of managing risks arising from changes in asset and liability values and movements in rates is provided by derivative

Overview (continued)

products such as forwards, futures, swaps and options. In this connection, we are an active market-maker and derivative counterparty. Customers use derivatives to manage their risks, for example, by:

- using forward foreign currency contracts to hedge their income from export sales or costs of imported materials;
- using an inflation swap to hedge future inflation-linked liabilities, for example, for pension payments;
- transforming variable payments of debt interest into fixed rate payments, or vice versa; or
- providing investors with hedges against movements in markets or particular stocks.

We charge customers a margin, representing the difference between the price charged to the customer and the theoretical cost of executing an offsetting hedge in the market. We retain that margin, which represents a profit to the Group, at maturity of the transaction if the risk management of the position has been effective.

We then use derivatives along with other financial instruments to constrain the risks arising from customer business within risk limits. Normally, we will have customers both buying and selling relevant instruments so our focus is then on managing any residual risks through transactions with other dealers or professional counterparties. Where we do not fully hedge the residual risks we may gain or lose money as market movements affect the net value of the portfolio.

Stress tests and other risk management techniques are also used to ensure that potential losses remain within our risk appetite under a wide range of potential market scenarios.

In addition, we manage risks within HSBC, including those which arise from the business we do with customers.

Long-term sustainability

At HSBC, we understand that the success of our business is closely connected to the economic, environmental and social landscape in which we operate. For us, long-term corporate sustainability means achieving a sustainable return on equity and profit growth so that we can continue to reward shareholders and employees, build long-lasting relationships with customers and suppliers, pay taxes and duties in the countries in which we operate, and invest in communities for future growth. The way we do business is as important as what we do: our

responsibilities to our customers, employees and shareholders as well as to the countries and communities in which we operate go far beyond simply being profitable.

Continuing financial success depends, in part, on our ability to identify and address environmental, social and ethical developments which present risks or opportunities for the business. It also depends on the consistent implementation of the highest standards everywhere we operate to detect, deter and protect against financial crime. Our response to these factors shapes our reputation, drives employee engagement and affects the riskiness of the business, and can help reduce costs and secure new revenue streams.

Our international network and the long-established position of many of our businesses in HSBC s home and priority growth markets, when combined with our wide-ranging portfolio of products and services, differentiate HSBC from our competitors and give our business and operating models an inherent resilience. This has enabled the Group to remain profitable and grow through the most turbulent of times for our industry, and we are confident that the models will continue to stand us in good stead in the future and will underpin the achievement of our strategic priorities.

Our strategy

Our strategy is designed to ensure we have a sustainable business for the long term.

Long-term trends

Our strategy is aligned to two long-term trends.

The world economy is becoming ever more connected, with growth in world trade and cross-border capital flows continuing to outstrip growth in average gross domestic product. Over the next decade we expect 35 markets to generate 90% of world trade growth with a similar degree of concentration in cross-border capital flows.

Of the world s top 30 economies, we expect those of Asia, Latin America, the Middle East and Africa to have increased by around fourfold in size by 2050, benefiting from demographics and urbanisation. By this time they will be larger than those of Europe and North America combined. By 2050, we expect 18 of the 30 largest economies will be from Asia, Latin America or the Middle East and Africa.

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HSBC HOLDINGS PLC

Overview (continued)

Competitive advantages

What matters in this environment are:

- having an international network and global product capabilities to capture international trade and movements in capital; and
- being able to take advantage of organic investment opportunities in the most attractive growth markets and maintaining the capacity to invest.

HSBC s competitive advantages come from:

- our meaningful presence in and long-term commitment to our key strategic markets;
- our strong ability to add to our capital base while also providing competitive rewards to our staff and good returns to our shareholders;
- our stable funding base, with about US$1.4 trillion of customer accounts of which 74% has been advanced to customers;
- our business network, which covers over 90% of global trade and capital flows; and
- our local balance sheet strength and trading capabilities in the most relevant financial hubs.

A two-part strategy

Based on these long-term trends and our competitive advantages, we have developed a two-part strategy:

- *A network of businesses connecting the world.* HSBC s network spans the largest and fastest-growing international trade corridors, putting us in a strong position to capture international trade and capital flows. The range of services available through our Commercial Banking and Global Banking and Markets businesses can help clients grow from small enterprises into large multinationals.
- *Wealth management and retail with local scale.* We will capture opportunities arising from social mobility and wealth creation in our priority growth markets through our Premier proposition and Global Private Banking business. We will invest in full-scale retail banking only in markets where we can achieve profitable scale, namely our home markets of the UK and Hong Kong.

Our strategic priorities

Our strategic priorities are designed to ensure we have a sustainable business for the long term.

Grow the business and dividends

Profit underpins long-term business sustainability and growing our profit is an integral part of our strategy. The conditions for creating value and generating profits are reflected in our business and operating models, which determine how our global businesses, geographical regions and functions interact. We continue to invest in products and geographies that help us capitalise on our position as a leading international bank. Delivering organic growth will support a progressive dividend.

Implement Global Standards

As a global bank we need Global Standards consistent operating principles that are fundamental to the way we do business and which help us to detect, deter and protect against financial crime. Implementing Global Standards affects how we govern the Group, the nature of our core business and the performance, recognition and behaviours of all our people in managing high quality customer relationships. It starts with embedding our HSBC Values in everything we do. Over the long term, implementing Global Standards will create a competitive advantage and enhance the quality of our earnings.

Streamline processes and procedures

Society s expectations of the financial services industry are evolving and becoming more demanding. At the same time, digital technologies are making it easier for new entrants to join the industry and markets are becoming increasingly competitive. In this environment, it is essential that we focus relentlessly on improving efficiency, ensuring that all parts of the Group streamline their processes and procedures and, as a consequence, reduce their costs. At the same time we recognise and respect our wider obligations to the community, including human rights, and the environment. Streamlining processes and procedures will support our investment in growth and Global Standards.

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HSBC HOLDINGS PLC

Overview (continued)

Business and operating models

Our businesses are organised to serve a cohesive portfolio of markets, as tabulated below. Our comprehensive range of banking and related financial services is provided by operating subsidiaries and associates. Services are primarily delivered by domestic banks, typically with local deposit bases.

Business model

Our business model is based on an international network connecting faster-growing and developed markets.

The UK and Hong Kong are our home markets, and a further 19 countries form our priority growth markets (see table below). These 21 markets accounted for over 90% of our profit before tax in the first half of 2014, and are the primary focus of

capital deployment. Network markets are markets with strong international relevance which serve to complement our international spread, operating mainly through Commercial Banking and Global Banking and Markets. Our combination of home, priority growth and network markets covers around 85-90% of all international trade and financial flows.

The final category, small markets, includes those where our operations are of sufficient scale to operate profitably, or markets where we maintain representative offices.

Our legal entities are regulated by their local regulators and on a Group-wide basis we are regulated from the UK by the Prudential Regulation Authority (PRA) for prudential matters (safety and soundness) and by the Financial Conduct Authority (FCA) for conduct (consumer and market protection).

HSBC s market structure

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Overview (continued)

Operating model

Our operating model is based on a matrix management structure comprising global businesses, geographical regions and global functions. The matrix is overlaid on a legal entity structure headed by HSBC Holdings plc.

Holding company

HSBC Holdings, the holding company of the Group, is the primary source of equity capital for its subsidiaries and provides non-equity capital to them when necessary.

Under authority delegated by the Board of HSBC Holdings, the Group Management Board (GMB) is responsible for the management and day-

to-day running of the Group, within the risk appetite set by the Board. GMB works to ensure that there are sufficient cash resources to pay dividends to shareholders, interest to bondholders, expenses and taxes.

HSBC Holdings does not provide core funding to any banking subsidiary, nor is a lender of last resort, and does not carry out any banking business in its own right. Subsidiaries operate as separately capitalised entities implementing the Group strategy.

Matrix management structure

The following table lists our four global businesses, five geographical regions and 11 global functions, and summarises their responsibilities under HSBC s matrix structure.

Matrix management structure

For footnotes, see page 96.

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HSBC HOLDINGS PLC

Overview (continued)

Global businesses

Our four global businesses are Retail Banking and Wealth Management (RBWM), Commercial Banking (CMB), Global Banking and Markets (GB&M) and Global Private Banking (GPB). They are responsible for developing, implementing and managing their business propositions consistently across the Group, focusing on profitability and efficiency. They set their strategies

within the parameters of the Group strategy in liaison with the geographical regions, are responsible for issuing planning guidance regarding their businesses, are accountable for their profit and loss performance, and manage their headcount.

The main business activities of our global business are summarised below, and their products and services on page 79 of the Annual Report and Accounts 2013.

Main business activities by global business and reported revenue[13]

For footnotes, see page 96.

Investment criteria

Our investment criteria are governed by six filters. The first two filters international connectivity and economic development determine whether the business is strategically relevant. The next three filters profitability, efficiency and liquidity determine whether the financial position of the business is attractive. The sixth filter the risk of financial crime governs our activities in high risk jurisdictions, and is applied to protect us by restricting the scope of our business where appropriate.

Decisions over where to invest additional resources have three components:

- *Strategic* we will only invest in businesses aligned to our strategy, mostly in our 21 home and priority growth markets and in target businesses and clients;
- *Financial* the investment must be value accretive for the Group, and must meet minimum returns, revenue and cost hurdles; and
- *Risk* the investment must be consistent with our risk appetite.

Using the six filters in decision-making

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HSBC HOLDINGS PLC

Overview (continued)

Global Standards

We have developed Global Standards shaped by the highest or most effective standards of financial crime compliance available in any jurisdiction where HSBC operates and are now in the process of deploying these globally on a consistent basis.

By definition, the impact of Global Standards is organisation-wide, and the principal means by which we drive consistently high standards is through universal application of our HSBC Values, strong systems of governance and the behaviours, performance and recognition of all our people in managing high quality customer relationships.

In line with our ambition to be recognised as the world s leading international bank, we aspire to set the industry standard for knowing our customers and detecting, deterring and protecting against financial crime. As international markets become more interconnected and complex and as threats to the global financial system grow, we are strengthening further the policies and practices which govern how we do business and with whom.

We greatly value our reputation. Our success over the years is due in no small part to our reputation for trustworthiness and integrity. In areas where we have fallen short in recent years in the application of our standards and in our ability to identify and so prevent misuse and abuse of the financial system through our networks we have moved immediately to strengthen our governance processes and have committed to adopt and enforce the highest or most effective financial crime compliance standards across HSBC.

We continue to reinforce the status and significance of compliance and adherence to our Global Standards by building strong internal controls, developing world class capabilities through communication, training and assurance programmes to make sure employees understand and can meet their responsibilities, and redesigning core elements of how we assess and reward senior executives.

We see the implementation of Global Standards as a source of competitive advantage. Global Standards allow us to:

- strengthen our response to the ongoing threat of financial crime;
- make consistent and therefore simplify the ways by which we monitor and enforce high standards at HSBC;
- strengthen policies and processes that govern how we do business and with whom; and
- ensure that we consistently apply our HSBC Values.

We expect our Global Standards to underpin our business practices now and in the future. Initially, we are concentrating on transforming how we detect, deter and protect against financial crime. We are implementing a more consistent, comprehensive approach to assessing financial crime risk in order to help protect our customers, our employees and the financial system as a whole.

Governance framework

Following Board approval of HSBC s global anti-money laundering (AML) and sanctions policies in January 2014, the programme to implement Global Standards is transitioning from the design phase into deployment.

The global businesses and Financial Crime Compliance organisation, supported by HSBC Technology and Services, are formally accountable for delivering business procedures, controls and the associated operating environment to implement our new policies within each global business and jurisdiction.

To ensure that programme governance reflects this shift in accountability, we have revised the composition of the Global Standards Execution Committee to include the Chief Executive Officers of each global business, under the chairmanship of the Group Chief Risk Officer.

Correspondingly, and to promote closer integration with business as usual, a report on the implementation of Global Standards has now become a standing item at the Group s Risk Management Meeting. This replaces the Global Standards Steering Meeting (formerly a meeting of the GMB). The Financial System Vulnerabilities Committee and the Board continue to receive regular reports on the Global Standards programme.

The process of embedding Global Standards and the supporting controls and capabilities that allow the business to identify and mitigate financial crime risk has begun. The implementation programme is focused on the following four areas, as described on page 24 of the *Annual Report and Accounts 2013:*

- data readiness;
- customer due diligence;
- financial crime compliance; and
- financial intelligence.

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HSBC HOLDINGS PLC

Overview (continued)

Risk appetite

Over the longer term, the sustainable operation of financial crime risk controls as part of our everyday business is governed according to our global Financial Crime Risk Appetite Statement. The overarching approach and appetite to financial crime risk is that we will not tolerate operating without the appropriate systems and controls in place to prevent and detect financial crime and will not conduct business with individuals or entities we believe are engaged in illicit behaviour.

Enterprise-wide risk assessment

We have established an annual process for conducting enterprise-wide assessments of our risks and controls related to sanctions and AML compliance. The outcome of these assessments forms the basis for risk management planning, prioritisation and resource allocation.

The Monitor

Under the agreements entered into with the US Department of Justice (DoJ), the FCA (formerly the FSA) and the US Federal Reserve Board (FRB) in 2012, including the five-year Deferred Prosecution Agreement (US DPA), it was agreed that an independent compliance monitor (the Monitor) would be appointed to evaluate our progress in fully implementing our obligations and produce regular assessments of the effectiveness of our Compliance function.

Michael Cherkasky began his work as the Monitor in July 2013, charged with evaluating and reporting upon the effectiveness of the Group s internal controls, policies and procedures as they relate to ongoing compliance with applicable AML, sanctions, terrorist financing and proliferation financing obligations, over a five-year period.

The Monitor s work is proceeding as expected, consistent with the timelines and requirements set forth in the relevant agreements. HSBC is taking concerted action to remediate AML and sanctions compliance deficiencies and to implement Global Standards. We recognise we are only at the start of a long journey, being just over a year into our US DPA. We look forward to maintaining a strong, collaborative relationship with the Monitor and his team.

HSBC Values

Embedding HSBC Values in every decision and every interaction with customers and with each other

is a top priority for the Group and is shaping the way we do business.

The role of HSBC values in daily operating practice is fundamental to our culture, and is particularly important in the light of developments in regulatory policy, investor confidence and society s expectations of banks.

We require high standards of behaviour from all our employees. HSBC s Values of being dependable, open and connected form part of the performance assessment of every employee, including our most senior managers.

HSBC Values

Be dependable and do the right thing

- stand firm for what is right, deliver on commitments, be resilient and trustworthy; and
- take personal accountability, be decisive, use judgement and common sense, empower others.

Be open to different ideas and cultures

- communicate openly, honestly and transparently, value challenge, learn from mistakes; and
- listen, treat people fairly, be inclusive, value different perspectives.

Be connected with our customers, communities, regulators and each other

- build connections, be externally focused, collaborate across boundaries; and
- care about individuals and their progress, show respect, be supportive and responsive.

We continued to educate employees at all levels about our values, through induction and other learning programmes covering Group strategy, leadership and professional skills. Also, a number of employees have left the Group for breaching our values.

To achieve a values-led high performance culture, our leaders are being coached to listen, be open to other people s views and engage in honest and meaningful conversations. In 2014, we expect participation in our Values-led High Performance Workshop to extend to 20,000 employees.

We have continued to strengthen the alignment of employee compensation to our values and expected behaviours through the development of a malus and clawback policy and enhanced communication to employees and guidance to line management outlining how behaviours will affect remuneration. We are also developing a framework to more consistently apply consequence management across the Group for behaviours and outcomes that are not aligned with our values, business principles and regulation.

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HSBC HOLDINGS PLC

Overview (continued)

Risk

As a provider of banking and financial services, risk is at the core of our day-to-day activities.

All our activities involve, to varying degrees, the measurement, evaluation, acceptance and management of risk or combinations of risks which we assess on a Group-wide basis.

Our risk culture is fundamental to the delivery of the Group s strategic priorities. It may be characterised as conservative, control-based and collegiate. It is reinforced by our HSBC Values and our Global Standards, and forms the basis on which our risk appetite is established. Our risk

management framework is employed at all levels of the organisation, and is instrumental in aligning the behaviour of individuals with the Group s attitude to assuming and managing risk and ensuring that our risk profile is aligned to our risk appetite. The main elements that underpin our risk culture are described on page 39 of the *Annual Report and Accounts 2013*.

The chart below provides a high level guide to how HSBC s business activities are reflected in our risk measures and in our balance sheet. The third-party assets and liabilities shown therein indicate the contribution of each global business to the Group s balance sheet. The regulatory RWAs illustrate the relative size of the risks each of them incur.

Exposure to risks arising from the business activities of global businesses

For footnote, see page 96.

Risk factors

Our businesses are exposed to a broad range of risks that could potentially affect the results of our operations or financial condition. These risk

factors are summarised on page 135 of the *Annual Report and Accounts 2013*. They inform the ongoing assessment of our top and emerging risks, which may result in our risk appetite being revised.

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HSBC HOLDINGS PLC

Overview (continued)

Top and emerging risks

Identifying and monitoring top and emerging risks are integral to our approach to risk management. We define a top risk as being a current, emerged risk which has arisen across any of our risk categories, global businesses or regions and has the potential to have a material impact on our financial results or our reputation and the sustainability of our long-term business model, and which may form and crystallise within a one-year horizon. We consider an emerging risk to be one with potentially significant but uncertain outcomes which may form and crystallise beyond a one-year horizon, in the event of which it could have a material effect on our ability to achieve our long-term strategy.

Our top and emerging risk framework enables us to identify and manage current and forward-looking risks to ensure our risk appetite remains appropriate.

Top and emerging risks fall under the following three categories:

- macroeconomic and geopolitical risk;
- macro-prudential, regulatory and legal risks to our business model; and
- risks related to our business operations, governance and internal control systems.

During the first half of 2014, senior management paid particular attention to a range of top and emerging risks. Our current ones are summarised below.

Top and emerging risks /

Macroeconomic and geopolitical risk

Emerging markets slowdown

Increased geopolitical risk

Macro-prudential, regulatory and legal risks to our business model

Regulatory developments affecting our business model and Group profitability

Regulatory investigations, fines, sanctions, commitments and consent orders and requirements relating to conduct of business and financial crime negatively affecting our results and brand

Dispute risk

Risks related to our business operations, governance and internal control systems

Heightened execution risk

People risk

Stress test impact risk

Social media risk

Internet crime and fraud

Information security risk

Data management

Model risk

We made a number of changes to our top and emerging risks in the first half of 2014 to reflect our revised assessment of their effect on HSBC. Stress test impact risk was identified as a top risk because of the increase in volume and granularity of regulatory stress test exercises and because public disclosure of the results of the exercises could have unexpected consequences for business and our reputation. HSBC is subject to a number of major regulatory stress tests during 2014, as described on page 105. Social media risk was also assessed as a top risk due to the speed at which speculation about an institution or customer complaints, either specific to an institution or more generally in relation to a particular product, can spread through the use of social media channels. Whilst people risk is inherent within a number of the Top and Emerging Risks, it has now been disclosed as a standalone risk, as the risks in this area continue to heighten.

When the top and emerging risks were assessed as having the potential to result in our risk appetite being exceeded, we took steps to mitigate them, including reducing our exposure to areas of stress. Significant senior management attention was given to tracking and monitoring our compliance with the requirements of the US DPA and improving our policies, processes and controls to minimise the risk of a breach.

A detailed account of these risks is provided on page 100. Further comments on risks and uncertainties are made throughout the *Annual Report and Accounts 2013*, particularly in the section on Risk, pages 134 to 297.

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HSBC HOLDINGS PLC

Overview (continued)

Risk appetite

The Group s Risk Appetite Statement (RAS) describes the types and quantum of risks that we are willing to accept in achieving our medium and long-term strategic objectives. It is approved by the Board on the advice of the Group Risk Committee.

The RAS is a key component of our risk management framework, guides the annual planning process by defining the desired forward-looking risk profile of the Group in achieving our strategic objectives, and plays an important role in our six filters process. Our risk appetite may be revised in response to our assessment of the top and emerging risks we have identified.

Global businesses and geographical regions are required to align their risk appetite statements to the Group s RAS.

Quantitative and qualitative metrics are measured and monitored in ten key categories: returns, capital, liquidity and funding, securitisations, cost of risk, intra-Group lending, strategic investments, risk categories like credit, market and operational risk, risk diversification and concentration, and financial crime compliance. Measurement against the metrics:

guides underlying business activity, ensuring it is aligned to risk appetite statements;

informs risk-adjusted remuneration;

enables the key underlying assumptions to be monitored and, where necessary, adjusted through subsequent business planning cycles; and

allows the business decisions needed to mitigate risk to be promptly identified.

Some of the core metrics that are measured, monitored and presented monthly to the Risk Management Meeting of the GMB are tabulated below:

Risk appetite metrics

	2014 target[21]	At 30 June 2014
Common equity tier 1 ratio[5]	>10%	**11.3%**
Return on equity	Trending upwards to 12% to 15%	**10.7%**

	by 2016	
Return on RWAs[5]	2.2% to 2.6%	**2.1%**
Cost efficiency ratio	Mid-50s	**58.6%**
Advances to customer accounts ratio[3]	Below 90%	**74.0%**
Cost of risk (LICs)	Below 15% of operating income	**5.3%**

For footnotes, see page 96.

With effect from 2014 our common equity tier 1 ratio target was changed from 9.5-10.5% to >10% and our return on RWA target from 2.1-2.7%, to 2.2-2.6%, both calculated on an estimated CRD IV end point basis. The changes were made to reflect our anticipated regulatory capital requirements under CRD IV (see page 185). Similarly, the timeframe around achieving our return on equity target was extended to the medium term while capital rules are finalised. Our cost efficiency ratio target was changed from 48-52% to the mid-50s as our focus moves from organisational efficiency to streamlining processes and procedures while investing for growth.

In addition to the revisions noted above, we strengthened the Group s RAS in 2014 by incorporating into it measures related to the core financial crime compliance principles on deterrence, detection and protection.

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HSBC HOLDINGS PLC

Interim Management Report

Financial summary

Use of non-GAAP financial measures

Our reported results are prepared in accordance with IFRSs as detailed in the Financial Statements starting on page 206. In measuring our performance, the financial measures that we use include those which have been derived from our reported results in order to eliminate factors which distort period-on-period comparisons. These are considered non-GAAP financial measures. Non-GAAP financial measures that we use throughout our Financial Review are described below. Other non-GAAP financial measures are described and reconciled to the closest reported financial measure when used.

Constant currency

Constant currency adjusts the period-on-period effects of foreign currency translation differences on performance by comparing reported results for the half-year to 30 June 2014 with reported results for the half-years to 30 June 2013 and 31 December 2013 retranslated at average exchange rates for the half-year to 30 June 2014. Except where stated otherwise, commentaries are on a constant currency basis, as reconciled in the table overleaf.

The foreign currency translation differences reflect the period-on-period movements of the US dollar against most major currencies.

We exclude the translation differences because we consider the like-for-like basis of constant currency financial measures more appropriately reflects changes due to operating performance.

Constant currency

Constant currency comparatives for the half-years to 30 June 2013 and 31 December 2013 referred to in the commentaries below are computed by retranslating into US dollars for non-US dollar branches, subsidiaries, joint ventures and associates:

- the income statements for the half-years to 30 June 2013 and 31 December 2013 at the average rates of exchange for the half-year to 30 June 2014; and

- the balance sheets at 30 June 2013 and 31 December 2013 at the prevailing rates of exchange at 30 June 2014.

No adjustment has been made to the exchange rates used to translate assets and liabilities denominated in foreign currency into the functional currencies of any HSBC branches, subsidiaries, joint ventures or associates.

When reference is made to constant currency in tables or commentaries, comparative data reported in the functional currencies of HSBC s operations have been translated at the appropriate exchange rates applied in the current period on the basis described above.

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HSBC HOLDINGS PLC

Interim Management Report (continued)

Reconciliation of reported and constant currency profit before tax

	Half-year to 30 June 2014 (1H14) compared with half-year to 30 June 2013 (1H13)					
	1H13 as reported US$m	Currency translation adjustment[22] US$m	1H13 at 1H14 exchange rates US$m	1H14 as reported US$m	Reported change[23] %	Constant currency change[23] %
HSBC						
Net interest income	17,819	(235)	17,584	17,405	(2)	(1)
Net fee income	8,404	(44)	8,360	8,177	(3)	(2)
Net trading income	6,362	142	6,504	3,275	(49)	(50)
Own credit spread[24]	(19)	4	(15)	(215)		
Other income/(expense) from financial instruments designated at fair value	(1,178)	(78)	(1,256)	1,875		
Net income/(expense) from financial instruments designated at fair value	(1,197)	(74)	(1,271)	1,660		
Gains less losses from financial investments	1,856	16	1,872	946	(49)	(49)
Net earned insurance premiums	6,226	(17)	6,209	6,137	(1)	(1)
Other operating income (including dividend income)	1,053	(30)	1,023	626	(41)	(39)
Total operating income	40,523	(242)	40,281	38,226	(6)	(5)
Net insurance claims incurred and movement in liabilities to policyholders	(6,151)	(19)	(6,170)	(7,059)	(15)	(14)
Net operating income[13]	34,372	(261)	34,111	31,167	(9)	(9)
Loan impairment charges and other credit risk provisions	(3,116)	106	(3,010)	(1,841)	41	39
Net operating income	31,256	(155)	31,101	29,326	(6)	(6)
Operating expenses	(18,399)	125	(18,274)	(18,266)	1	
Operating profit	12,857	(30)	12,827	11,060	(14)	(14)
Share of profit in associates and joint ventures	1,214	22	1,236	1,280	5	4
Profit before tax	14,071	(8)	14,063	12,340	(12)	(12)
By global business						
Retail Banking and Wealth Management	3,267	43	3,310	3,045	(7)	(8)
Commercial Banking	4,133	16	4,149	4,771	15	15
Global Banking and Markets	5,723	(46)	5,677	5,033	(12)	(11)
Global Private Banking	108	11	119	364	237	206
Other	840	(32)	808	(873)		
Profit before tax	14,071	(8)	14,063	12,340	(12)	(12)
By geographical region						
Europe	2,768	227	2,995	2,258	(18)	(25)
Asia[11]	9,262	(98)	9,164	7,894	(15)	(14)

Middle East and North Africa	**909**	**(3)**	**906**	**989**	**9**	**9**
North America	**666**	**(33)**	**633**	**825**	**24**	**30**
Latin America	**466**	**(101)**	**365**	**374**	**(20)**	**2**
Profit before tax	**14,071**	**(8)**	**14,063**	**12,340**	**(12)**	**(12)**

Interim Management Report (continued)

Half-year to 30 June 2014 (1H14) compared with half-year to 31 December 2013 (2H13)

	2H13 as reported US$m	Currency translation adjustment[22] US$m	2H13 at 1H14 exchange rates US$m	1H14 as reported US$m	Reported change[23] %	Constant currency change[23] %
HSBC						
Net interest income	17,720	66	17,786	17,405	(2)	(2)
Net fee income	8,030	39	8,069	8,177	2	1
Net trading income	2,328	(87)	2,241	3,275	41	46
Own credit spread[24]	(1,227)	(13)	(1,240)	(215)	82	83
Other expense from financial instruments designated at fair value	3,192	109	3,301	1,875	(41)	(43)
Net income from financial instruments designated at fair value	1,965	96	2,061	1,660	(16)	(19)
Gains less losses from financial investments	156		156	946		
Net earned insurance premiums	5,714	12	5,726	6,137	7	7
Other operating income (including dividend income)	1,901	6	1,907	626	(67)	(67)
Total operating income	37,814	132	37,946	38,226	1	1
Net insurance claims incurred and movement in liabilities to policyholders	(7,541)	(23)	(7,564)	(7,059)	6	7
Net operating income[13]	30,273	109	30,382	31,167	3	3
Loan impairment charges and other credit risk provisions	(2,733)	(3)	(2,736)	(1,841)	33	33
Net operating income	27,540	106	27,646	29,326	6	6
Operating expenses	(20,157)	(146)	(20,303)	(18,266)	9	10
Operating profit	7,383	(40)	7,343	11,060	50	51
Share of profit in associates and joint ventures	1,111		1,111	1,280	15	15
Profit before tax	8,494	(40)	8,454	12,340	45	46
By global business						
Retail Banking and Wealth Management	3,382	20	3,402	3,045	(10)	(10)
Commercial Banking	4,308	2	4,310	4,771	11	11
Global Banking and Markets	3,718	(45)	3,673	5,033	35	37
Global Private Banking	85		85	364		
Other	(2,999)	(17)	(3,016)	(873)	71	71
Profit before tax	8,494	(40)	8,454	12,340	45	46
By geographical region						
Europe	(943)	61	(882)	2,258		
Asia[11]	6,591	(10)	6,581	7,894	20	20
Middle East and North Africa	785	(3)	782	989	26	26
North America	555	(24)	531	825	49	55
Latin America	1,506	(64)	1,442	374	(75)	(74)
Profit before tax	8,494	(40)	8,454	12,340	45	46

For footnotes, see page 96.

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Interim Management Report (continued)

Underlying performance

Underlying performance:

- adjusts for the period-on-period effects of foreign currency translation;
- eliminates the fair value movements on our long-term debt attributable to credit spread (own credit spread) where the net result of such movements will be zero upon maturity of the debt (see footnote 24 on page 96); and
- adjusts for acquisitions, disposals and changes of ownership levels of subsidiaries, associates, joint ventures and businesses.

For acquisitions, disposals and changes of ownership levels of subsidiaries, associates, joint ventures and businesses, we eliminate the gain or loss on disposal or dilution and any associated gain

or loss on reclassification or impairment recognised in the period incurred, and remove the operating profit or loss of the acquired, disposed of or diluted subsidiaries, associates, joint ventures and businesses from all the periods presented so we can view results on a like-for-like basis. Disposal of investments other than those included in the above definition do not lead to underlying adjustments.

We use underlying performance to explain period-on-period changes when the effect of fair value movements on own debt, acquisitions, disposals or dilution is significant because we consider that this basis more appropriately reflects operating performance.

The following disposals and changes to ownership levels affected the underlying performance:

Disposal gains/(losses) affecting underlying performance

	Date	Disposal gain/(loss) US$m
Reclassification gain in respect of our holding in Industrial Bank Co., Limited following the issue of additional share capital to third parties[25]	Jan 2013	1,089
HSBC Insurance (Asia-Pacific) Holdings Limited s disposal of its shareholding in Bao Viet Holdings[25]	Mar 2013	104
Household Insurance Group holding company s disposal of its insurance manufacturing business[25]	Mar 2013	(99)
HSBC Seguros, S.A. de C.V., Grupo Financiero HSBC s disposal of its property and Casualty Insurance business in Mexico[25]	Apr 2013	20
HSBC Bank plc s disposal of its shareholding in HSBC (Hellas) Mutual Funds Management SA[26]	Apr 2013	(7)
HSBC Insurance (Asia-Pacific) Holdings Limited disposal of its shareholding in Hana HSBC Life Insurance Company Limited[25]	May 2013	28

HSBC Bank plc s disposal of HSBC Assurances IARD[26]	May 2013	(4)
The Hongkong and Shanghai Banking Corporation Limited s disposal of HSBC Life (International) Limited s Taiwan branch operations[26]	June 2013	(36)
HSBC Markets (USA) Inc. s disposal of its subsidiary, Rutland Plastic Technologies[26]	Aug 2013	17
HSBC Insurance (Singapore) Pte Ltd s disposal of its Employee Benefits Insurance business in Singapore[26]	Aug 2013	(8)
HSBC Investment Bank Holdings plc s disposal of its investment in associate FIP Colorado[26]	Aug 2013	(5)
HSBC Investment Bank Holdings plc group s disposal of its investment in subsidiary, Viking Sea Tech[25]	Aug 2013	54
HSBC Latin America Holdings UK Limited s disposal of HSBC Bank (Panama) S.A.[26]	Oct 2013	1,107
HSBC Latin America Holdings UK Limited s disposal of HSBC Bank (Peru) S.A.[26]	Nov 2013	(18)
HSBC Latin America Holdings UK Limited s disposal of HSBC Bank (Paraguay) S.A.[26]	Nov 2013	(21)
Reclassification loss in respect of our holding in Yantai Bank Co., Limited following an increase in its registered share capital[25]	Dec 2013	(38)
HSBC Latin America Holdings UK Limited s disposal of HSBC Bank (Colombia) S.A.[25]	Feb 2014	18
Reclassification loss in respect of our holding in Vietnam Technological & Commercial Joint Stock Bank following the loss of significant influence[25]	Jun 2014	(32)
HSBC Bank Middle East Limited s disposal of its banking business in Jordan[25]	Jun 2014	

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The following table reconciles our reported revenue, loan impairment charges, operating expenses and profit before tax for the first half of 2014 and the two halves of 2013 to an underlying basis. Throughout this *Interim Report*, we reconcile other reported results to underlying results when

doing so results in a more useful discussion of operating performance. Equivalent tables are provided for each of our global businesses and geographical segments on pages which are available on www.hsbc.com.

Reconciliation of reported and underlying items

	Half-year to					
	30 June 2014 US$m	30 June 2013 US$m	Change[23] %	**30 June 2014 US$m**	31 December 2013 US$m	Change[23] %
Net interest income						
Reported	**17,405**	17,819	(2)	**17,405**	17,720	(2)
Currency translation adjustment[22]		(235)			66	
Acquisitions, disposals and dilutions	**(27)**	(223)		**(27)**	(150)	
Underlying	**17,378**	17,361		**17,378**	17,636	(1)
Other operating income						
Reported	**538**	946	(43)	**538**	1,686	(68)
Currency translation adjustment[22]		(28)			6	
Acquisitions, disposals and dilutions	**14**	(1,107)		**14**	(1,132)	
Underlying	**552**	(189)		**552**	560	(1)
Revenue[13]						
Reported	**31,167**	34,372	(9)	**31,167**	30,273	3
Currency translation adjustment[22]		(265)			122	
Own credit spread[23]	**215**	19		**215**	1,227	
Acquisitions, disposals and dilutions	**(23)**	(1,406)		**(23)**	(1,332)	
Underlying	**31,359**	32,720	(4)	**31,359**	30,290	4
Loan impairment charges and other credit risk provisions						
Reported	**(1,841)**	(3,116)	41	**(1,841)**	(2,733)	33
Currency translation adjustment[22]		106			(3)	
Acquisitions, disposals and dilutions	**2**	44		**2**	17	
Underlying	**(1,839)**	(2,966)	38	**(1,839)**	(2,719)	32
Total operating expenses						
Reported	**(18,266)**	(18,399)	1	**(18,266)**	(20,157)	9
Currency translation adjustment[22]		125			(146)	
Acquisitions, disposals and dilutions	**26**	315		**26**	146	
Underlying	**(18,240)**	(17,959)	(2)	**(18,240)**	(20,157)	10
Underlying cost efficiency ratio	**58.2%**	54.9%		**58.2%**	66.5%	

Share of profit in associates and joint ventures						
Reported	**1,280**	1,214	5	**1,280**	1,111	15
Currency translation adjustment[22]		22				
Acquisitions, disposals and dilutions		(14)			102	
Underlying	**1,280**	1,222	5	**1,280**	1,213	6
Profit before tax						
Reported	**12,340**	14,071	(12)	**12,340**	8,494	45
Currency translation adjustment[22]		(12)			(27)	
Own credit spread[3]	**215**	19		**215**	1,227	
Acquisitions, disposals and dilutions	**5**	(1,061)		**5**	(1,067)	
Underlying	**12,560**	13,017	(4)	**12,560**	8,627	46

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Underlying profit before tax

	Half-year to					
	30 June 2014 US$m	30 June 2013 US$m	Change[23] %	**30 June 2014 US$m**	31 December 2013 US$m	Change[23] %
By global business						
Retail Banking and Wealth Management	**3,039**	3,382	(10)	**3,039**	3,104	(2)
Commercial Banking	**4,758**	4,098	16	**4,758**	3,831	24
Global Banking and Markets	**5,024**	5,662	(11)	**5,024**	3,307	52
Global Private Banking	**364**	119	206	**364**	84	
Other	**(625)**	(244)	(156)	**(625)**	(1,699)	63
Underlying profit before tax	**12,560**	13,017	(4)	**12,560**	8,627	46
By geographical region						
Europe	**2,417**	3,011	(20)	**2,417**	109	
Asia[11]	**7,931**	8,035	(1)	**7,931**	6,727	18
Middle East and North Africa	**984**	891	10	**984**	768	28
North America	**870**	775	12	**870**	717	21
Latin America	**358**	305	17	**358**	306	17
Underlying profit before tax	**12,560**	13,017	(4)	**12,560**	8,627	46

For footnotes, see page 96.

Interim Management Report (continued)

Reconciliation of reported and underlying average risk weighted assets

Group

	Half year to					
	30 June 2014 US$bn	30 June 2013 US$bn	Change[23] %	**30 June 2014 US$bn**	31 December 2013 US$bn	Change[23] %
Average reported RWAs	**1,200**	1,109	8	**1,200**	1,099	9
Currency translation adjustment[44]		2			4	
Acquisitions, disposals and dilutions	**(3)**	(27)		**(3)**	(10)	
Average underlying RWAs	**1,197**	1,084	10	**1,197**	1,093	10

US CML and other

	Half year to					
	30 June 2014 US$bn	30 June 2013 US$bn	Change %	**30 June 2014 US$bn**	31 December 2013 US$bn	Change %
Average reported RWAs	**74**	99	(25)	**74**	83	(11)
Average underlying RWAs	**74**	99	(25)	**74**	83	(11)

For footnotes, see page 96.

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Consolidated income statement

Summary income statement

		Half-year to	
	30 June	30 June	31 December
	2014	2013	2013
	US$m	US$m	US$m
Net interest income	**17,405**	17,819	17,720
Net fee income	**8,177**	8,404	8,030
Net trading income	**3,275**	6,362	2,328
Net income/(expense) from financial instruments designated at fair value	**1,660**	(1,197)	1,965
Gains less losses from financial investments	**946**	1,856	156
Dividend income	**88**	107	215
Net earned insurance premiums	**6,137**	6,226	5,714
Other operating income	**538**	946	1,686
Total operating income	**38,226**	40,523	37,814
Net insurance claims incurred and movement in liabilities to policyholders	**(7,059)**	(6,151)	(7,541)
Net operating income before loan impairment charges and other credit risk provisions	**31,167**	34,372	30,273
Loan impairment charges and other credit risk provisions	**(1,841)**	(3,116)	(2,733)
Net operating income	**29,326**	31,256	27,540
Total operating expenses	**(18,266)**	(18,399)	(20,157)
Operating profit	**11,060**	12,857	7,383
Share of profit in associates and joint ventures	**1,280**	1,214	1,111
Profit before tax	**12,340**	14,071	8,494
Tax expense	**(2,022)**	(2,725)	(2,040)
Profit for the period	**10,318**	11,346	6,454
Profit attributable to shareholders of the parent company	**9,746**	10,284	5,920
Profit attributable to non-controlling interests	**572**	1,062	534
Average foreign exchange translation rates to US$:			
US$1: £	**0.599**	0.648	0.632
US$1:	**0.730**	0.761	0.745

Reported profit before tax of US$12.3bn in the first half of 2014 was US$1.7bn or 12% less than in the first half of 2013, primarily reflecting lower gains (net of losses) from disposals and reclassifications. Our results in the first half of 2013 included a US$1.1bn accounting gain arising from the reclassification of Industrial Bank as a financial investment following its issue of additional share capital to third parties. In addition, there were adverse fair value movements of US$0.2bn on own debt designated at fair value in the first half of 2014 compared with minimal movements in the first half of 2013.

On an underlying basis, profit before tax of US$12.6bn was 4% lower, primarily driven by reduced net operating income before loan impairment charges and other credit risk provisions (revenue) which was partly offset by lower loan impairment charges and other credit risk provisions (LIC s).

The following commentary is on an underlying basis and comparisons are with the first half of 2013, except where stated otherwise. The difference between reported and underlying results is explained and reconciled on page 23.

Revenue of US$31.4bn was US$1.4bn or 4% lower, reflecting the reduced effect of significant items in the first half of 2014. Revenue in the first half of 2014 included:

a gain of US$428m on the sale of our shareholding in Bank of Shanghai;

an adverse debit valuation adjustment (DVA) of US$155m (compared with a favourable DVA of US$451m in the first half of 2013) on derivative contracts;

adverse fair value movements on non-qualifying hedges (see footnote 28) of US$322m compared with favourable

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movements of US$293m in the first half of 2013; and

- a provision of US$367m arising from a review of compliance with the Consumer Credit Act in the UK.

In the first half of 2013, we reported the following items:

- a net gain on completion of the Ping An disposal of US$553m; and
- foreign exchange gains on sterling debt issued by HSBC Holdings of US$442m; partly offset by
- a loss of US$279m recognised following the write-off of allocated goodwill relating to our GPB business in Monaco;
- a loss of US$271m on sale of the non-real estate accounts in the US run-off portfolio in RBWM;
- a loss of US$199m on early termination of cash flow hedges in the US run-off portfolio in RBWM; and
- a loss on the sale of an HFC Bank UK secured loan portfolio in RBWM of US$138m.

Excluding these items, revenue was US$0.1bn lower:

- in RBWM, revenue fell by US$0.4bn, reflecting reduced net interest income following the sale of real estate and non-real estate portfolios and lower average balances in the US run-off portfolio. In our Principal RBWM business (see footnote 55 on page 97), revenue was broadly unchanged, with a reduction in personal lending revenue mostly offset by higher income from current accounts, savings and deposits;
- in GB&M, revenue was down by US$0.3bn or 3%, mainly driven by Markets (down by US$0.3bn or 7%), reflecting decreased revenue in our Foreign Exchange business from lower market volatility and reduced client flows. In addition, in line with expectations, Balance Sheet Management revenue decreased reflecting lower gains on disposals of available-for-sale debt securities. By contrast, our Equities business grew and revenue was higher in Principal Investments and Credit, notably legacy credit, driven by price appreciation across certain classes in the asset-backed securities (ABS s) market; and
- in GPB, revenue was US$0.2bn lower, reflecting lower market volatility and a managed reduction in client assets as we continued to reposition the business.

These factors were partly offset by:

CMB, where revenue rose by US$0.4bn. This was due to higher net interest income driven by average lending and deposit growth in Asia and rising average deposit balances and wider lending spreads in the UK. In addition, revenue grew from higher net fee income driven by an increase in term lending fees in the UK.

LICs of US$1.8bn were US$1.1bn less than in the first half of 2013, primarily from reductions in Europe, North America and Latin America:

in Europe, LICs decreased by US$0.6bn, mainly driven by lower individually and collectively assessed impairments in CMB in the UK, reflecting the improved quality of the portfolio and the economic environment, together with higher net releases of credit risk provisions on available-for-sale ABSs in GB&M;

in North America, LICs decreased by US$0.3bn, reflecting reduced levels of delinquency and new impaired loans in the Consumer and Mortgage Lending (CML) portfolio and lower lending balances from the continued run-off and loan sales, partly offset by lower favourable market value adjustments of the underlying properties as improvements in housing market conditions were less pronounced in the first half of 2014; and

in Latin America, LICs decreased by US$0.3bn, primarily in Brazil. This was driven by changes to the impairment model and revisions to the assumptions for restructured loan account portfolios made in 2013 in both RBWM and CMB. It was partly offset by refinements to the impairment model for non-restructured loan portfolios, primarily in RBWM, in the first half of 2014. In Mexico, LICs improved due to reduced specific provisions for CMB, in particular relating to homebuilders.

Operating expenses of US$18.2bn were 2% higher and included a number of significant items as follows.

The first half of 2014 included:

lower UK customer redress programme charges of US$234m compared with US$412m in the first half of 2013. Charges for the period included estimated redress for possible mis-selling in previous years in respect of Payment Protection Insurance (PPI); and

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lower restructuring and other related costs of US$82m compared with US$238m in the first half of 2013.
In addition, the following significant items were recorded in the first half of 2013:

Madoff-related litigation costs in GB&M of US$298m;

regulatory investigation provisions in GPB of US$119m;

a customer remediation provision connected to our former Card and Retail Services (CRS) business of US$100m; partly offset by

an accounting gain of US$430m relating to changes in delivering ill-health benefits to certain employees in the UK.
Excluding significant items, operating expenses were US$756m or 4% higher, primarily reflecting increased investment in the Risk function (including

Compliance) and Global Standards and inflation, partly offset by cost saving initiatives.

Income from associates was 5% higher, driven by increased contributions from Bank of Communications (BoCom) and The Saudi British Bank.

The effective tax rate for the first half of 2014 was 16.4% compared with 19.4% for the first half of 2013 as the former benefited from a current tax credit for prior years and a non-taxable gain on the disposal of Bank of Shanghai. The effective tax rate in the first half of 2013 was higher because the tax exempt gains associated with the reclassification of our shareholding in Industrial Bank as a financial investment and the disposal of our investment in Ping An were partly offset by a write-down of deferred tax assets recognised in Mexico following clarification of the tax law by the Mexican fiscal authority.

Significant revenue items

	Half-year to		
	30 June 2014 US$m	30 June 2013 US$m	31 Dec 2013 US$m
Debit valuation adjustment on derivative contracts	**(155)**	451	(346)
Fair value movement on non-qualifying hedges[28]	**(322)**	293	218
Foreign exchange gains relating to the sterling debt issued by HSBC Holdings		442	
Gain on sale of shareholding in Bank of Shanghai	**428**		
Loss on early termination of cash flow hedges in the US run-off portfolio		(199)	
Loss on sale of an HFC Bank UK secured loan portfolio		(138)	(8)

Loss on sale of several tranches of real estate secured accounts in the US	**(15)**	(1)	(122)
Loss on sale of the non-real estate portfolio in the US		(271)	
Net gain on completion of Ping An disposal		553	
Provision arising from a review of compliance with the Consumer Credit Act in the UK	**(367)**		
Write-off of allocated goodwill relating to the GPB Monaco business		(279)	
	(431)	851	(258)

Significant cost items

		Half-year to	
	30 June 2014 US$m	30 June 2013 US$m	31 Dec 2013 US$m
Accounting gain arising from change in basis of delivering ill-health benefits in the UK		(430)	
Madoff-related litigation costs		298	
Regulatory investigation provisions in GPB		119	233
Restructuring and other related costs	**82**	238	245
UK bank levy	**(45)**	9	907
UK customer redress programmes	**234**	412	823
US customer remediation provision relating to CRS		100	
	271	746	2,208

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Group performance by income and expense item

Net interest income

	Half-year to		
	30 June	30 June	31 December
	2014	2013	2013
	US$m	US$m	US$m
Interest income	**25,435**	25,740	25,452
Interest expense	**(8,030)**	(7,921)	(7,732)
Net interest income[29]	**17,405**	17,819	17,720
Average interest-earning assets	**1,801,862**	1,657,555	1,680,988
Gross interest yield[30]	**2.85%**	3.13%	3.00%
Cost of funds	**(1.03%)**	(1.15%)	(1.05%)
Net interest spread[31]	**1.82%**	1.99%	1.95%
Net interest margin[31]	**1.95%**	2.17%	2.09%

For footnotes, see page 96.

The commentary in the following sections is on a constant currency basis and comparisons are with the first half of 2013, unless stated otherwise.

Reported net interest income of US$17.4bn decreased by US$414m compared with the first half of 2013. On a constant currency basis, net interest income decreased by US$179m. This was driven in part by a provision arising from a review of our compliance with the Consumer Credit Act (CCA) in the UK and the impact of the disposals of non-strategic operations in Latin America, although these factors were partially offset by increased income in Asia.

On an underlying basis, which excludes the net interest income earned by the businesses sold during 2013 and the first half of 2014 from all periods presented (first half of 2014: US$27m; first half of 2013: US$223m) and currency translation movements of US$235m, net interest income was broadly unchanged.

On both reported and constant currency bases, net interest spread and margin fell, reflecting lower yields on customer lending in North America and Europe. In North America this was due to changes in the composition of the lending portfolios towards lower yielding secured assets, and to the run-off of the CML portfolio. In Europe, it was due to the CCA provision noted above. These factors were partially offset by a lower cost of funds. In addition, the benefit of net free funds fell, due to the decrease in non-interest bearing liabilities.

Interest income

On a constant currency basis, interest income was broadly unchanged. Interest on loans and advances to customers decreased, principally in North

America as a consequence of the disposal of the higher yielding non-real estate loan portfolio and the reduction in the CML portfolio from run off and sales. In addition, new lending to customers in RBWM and CMB was at lower yields in the current low rate environment, reflecting a shift in the portfolio towards higher levels of lower yielding first lien real estate secured loans. In Europe, interest income fell primarily due to the provision from a review of our compliance with the CCA. By contrast, we recorded increased interest income on customer lending in Asia, driven by growth in term lending and residential mortgages during the first half of 2014. This increase in balances was partially offset by compressed yields on customer lending. In Latin America, interest income on customer lending activity was broadly unchanged, as increases in Brazil and Argentina were largely offset by disposals of non-strategic businesses in 2013. In Brazil, term lending and mortgages grew during the first half of 2014, although yields on customer lending decreased, despite the rise in average interest rates. This reflected the shift in product and client mix to more secured, relationship-led lending. In Argentina, growth in interest income was driven by increased average balances and higher yields, as interest rates rose.

Interest income on short-term funds and financial investments increased in Asia and Latin America, as interest rates rose in certain countries in these regions, notably in Brazil, Argentina and mainland China. Average balances for both short-term funds and financial investments also grew in these regions. However, in Europe, interest income on short-term funds and financial investments fell as maturing positions were replaced by longer-term but lower-yielding bonds.

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Interest expense

Interest expense increased in the first half of 2014 to a greater extent than interest income, primarily relating to customer accounts. In Latin America, interest expense increased as reductions in average balances were more than offset by the increase in the cost of funds due to interest rate rises. However, this was partly offset by the disposal of non-strategic operations. In Asia, the growth in the average balances of customer accounts drove the increase while the cost of funds was broadly unchanged. Conversely, in North America, interest expense on customer deposits declined as a result of business disposals leading to a fall in average outstanding balances, as well as a strategic decision to re-price deposits downwards. In addition, interest expense decreased due to a release of accrued interest associated with an uncertain tax position.

Interest expense on debt issued was broadly unchanged, as decreasing balances offset the increase in cost of funds. In North America, the effect of the business disposals led to a decline in our funding requirements. Cost of funds also fell as higher coupon debt matured and was repaid. In Europe, interest expense on debt decreased as

average outstanding balances fell as a result of net redemptions. The cost of funds also decreased as issuance of new debt was at lower prevailing rates. By contrast, interest expense increased in Latin America, notably in Brazil, in line with interest rate rises and increased medium-term loan note balances.

Repos and reverse repos

During the final quarter of 2013, GB&M changed the way it managed reverse repurchase (reverse repo) and repurchase (repo) activities. This had the effect of reducing the net interest margin as average interest earning assets and interest bearing liabilities increased significantly. These reverse repo and repo agreements have a lower gross yield and cost of funds, respectively, than the remainder of our portfolio.

Net interest income includes the expense of internally funded trading assets, while related revenue is reported in Net trading income . The internal cost of funding these assets increased, as average trading liability balances fell to a greater extent than trading assets. In reporting our global business results, this cost is included within Net trading income .

Net fee income

	Half-year to		
	30 June	30 June	31 December
	2014	2013	2013
	US$m	US$m	US$m
Account services	**1,734**	1,701	1,880
Funds under management	**1,283**	1,347	1,326
Cards	**1,210**	1,304	1,151
Credit facilities	**963**	930	977
Broking income	**664**	734	654
Imports/exports	**558**	580	577

Underwriting	**536**	518	348
Unit trusts	**518**	481	410
Remittances	**411**	415	434
Global custody	**359**	364	334
Insurance	**302**	280	271
Other	**1,493**	1,494	1,463
Fee income	**10,031**	10,148	9,825
Less: fee expense	**(1,854)**	(1,744)	(1,795)
Net fee income	**8,177**	8,404	8,030

Net fee income fell by US$227m on a reported basis and by US$183m on a constant currency basis.

Account services and cards fees declined in aggregate, mainly in Europe due to lower current account charges in the UK following a reduction in overdraft fees, and also from a managed reduction of client assets in our GPB business in Switzerland as we continued to reposition the business. In Mexico,

lower fees from a reduction in customer numbers also reflected repositioning.

Fees from funds under management reduced, mainly in Asia due to higher net fund outflows reflecting lower sales as a result of changes to customer investment appetite, and in Latin America partly reflecting a change in product mix. Broking fee income also fell, mainly in RBWM in Hong

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Kong from lower Wealth Management sales volumes and in Europe reflecting the managed reduction in client assets in GPB referred to above.

Other fee income was affected by the expiry of the Transition Servicing Agreements we entered into with the buyer of the CRS business in North America. In addition, higher fee expense reflected adverse adjustments to mortgage servicing rights

valuations in North America due to mortgage interest rate decreases in the first half of 2014, and higher fees payable under partnership agreements in the UK.

These factors were partly offset by increased fee income in credit facilities, mainly in Asia and Europe and, to a lesser extent, in North America reflecting increased new business volumes.

Net trading income

	Half-year to		
	30 June 2014	30 June 2013	31 December 2013
	US$m	US$m	US$m
Trading activities	**2,666**	5,766	1,155
Ping An contingent forward sale contract[32]		(682)	
Net interest income on trading activities	**913**	1,132	915
Gain/(loss) on termination of hedges	**(4)**	(200)	6
Other trading income/(expense) hedge ineffectiveness:			
on cash flow hedges	**15**	7	15
on fair value hedges	**22**	46	19
Non-qualifying hedges	**(337)**	293	218
Net trading income[33,34]	**3,275**	6,362	2,328

Significant items included in net trading income

	Half-year to		
	30 June 2014	30 June 2013	31 December 2013
	US$m	US$m	US$m
Included within trading activities:			

debit valuation adjustment	**(155)**	451	(346)
foreign exchange gains on sterling debt issued by HSBC Holdings		442	
Other significant items:			
Ping An contingent forward sale contract[32]		(682)	
loss on termination of cash flow hedges in CML		(199)	
non-qualifying hedges[28]	**(322)**	293	218
	(477)	305	(128)

For footnotes, see page 96.

Reported net trading income of US$3.3bn was US$3.1bn lower, mainly in Europe. On a constant currency basis, income reduced by US$3.2bn or 50%. This was partly the effect of various significant items, as noted in the table above.

Excluding significant items, net trading income from trading activities decreased, notably driven by adverse foreign exchange movements on assets held as economic hedges of foreign currency debt designated at fair value, compared with favourable movements in the first half of 2013. These movements offset fair value movements on the foreign currency debt which are reported in Net income from financial instruments designated at fair value .

In Markets, income from trading activities decreased, mainly driven by a fall in our Foreign Exchange business, reflecting lower market volatility and reduced client flows. By contrast, Rates revenue was broadly in line with the first half of 2013 as higher revenue in Latin America, in part driven by increased client activity, was offset by the effect of subdued client flows and lower market volatility, mainly in Europe. However, we recorded higher income in secondary Credit and revenue growth in Equities, notwithstanding the revaluation gains reported in the first half of 2013. The growth in our Equities business was driven by successful positioning of the business to capture increased client activity.

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Net interest income from trading activities also fell due to lower average balances, notably relating to reverse repos and repos, in line with the change in

the way GB&M manages them. The net interest income from these activities is now recorded in Net interest income .

Net income /(expense) from financial instruments designated at fair value

		Half-year to	
	30 June 2014 US$m	30 June 2013 US$m	31 December 2013 US$m
Net income/(expense) arising from:			
financial assets held to meet liabilities under insurance and investment contracts	**1,396**	717	2,453
liabilities to customers under investment contracts	**(231)**	(506)	(731)
HSBC s long-term debt issued and related derivatives	**438**	(1,419)	191
Change in own credit spread on long-term debt[35]	**(215)**	(19)	(1,227)
Other changes in fair value[36]	**653**	(1,400)	1,418
other instruments designated at fair value and related derivatives	**57**	11	52
Net income/(expense) from financial instruments designated at fair value	**1,660**	(1,197)	1,965

Assets and liabilities from which net income/(expense) from financial instruments designated at fair value arose

		At	
	30 June 2014 US$m	30 June 2013 US$m	31 December 2013 US$m
Financial assets designated at fair value at period-end	**31,823**	35,318	38,430
Financial liabilities designated at fair value at period-end	**82,968**	84,254	89,084
Including:			
Financial assets held to meet liabilities under:			
insurance contracts and investment contracts with DPF[37]	**11,906**	10,017	10,717
unit-linked insurance and other insurance and investment contracts	**16,927**	23,365	25,423
Long-term debt issues designated at fair value	**75,740**	71,456	75,278

For footnotes, see page 96.

The majority of the financial liabilities designated at fair value is fixed-rate long-term debt issued and managed in conjunction with interest rate swaps as part of our interest rate management strategy. These liabilities are discussed further on page 57 of the *Annual Report and Accounts 2013.*

Net income from financial instruments designated at fair value was US$1.7bn in the first half of 2014, compared with net expense of US$1.2bn in the first half of 2013 on a reported basis, and US$1.3bn on a constant currency basis. The former included adverse movements in the fair value of our own long-term debt of US$215m due to credit spread movements, compared with minimal fair value movements in the first half of 2013.

Net income arising from financial assets held to meet liabilities under insurance and investment

contracts of US$1.4bn was US$643m higher on a constant currency basis. This was driven by improved equity market performance in Hong Kong, higher net income on the bonds portfolio in Brazil and higher fair value gains in France, partly offset by weaker UK equity market performance. The investment gains or losses result in a corresponding movement in liabilities to customers (see page 57 of the *Annual Report and Accounts 2013* for details of the treatment of the movement in these liabilities).

Other changes in fair value mainly reflects fair value movements on foreign currency debt designated at fair value and issued as part of our overall funding strategy. In the first half of 2014, these movements were favourable, following adverse movements in the first half of 2013. An offset from assets held as economic hedges was reported in Net trading income .

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Interim Management Report (continued)

Gains less losses from financial investments

	Half-year to		
	30 June	30 June	31 December
	2014	2013	2013
	US$m	US$m	US$m
Net gains/(losses) from disposal of:			
debt securities	**185**	416	75
Ping An equity securities classified as available-for-sale[32]		1,235	
other equity securities	**782**	253	209
other financial investments	**2**	(2)	1
	969	1,902	285
Impairment of available-for-sale equity securities	**(23)**	(46)	(129)
Gains less losses from financial investments	**946**	1,856	156

For footnote, see page 96.

In the first half of 2014, gains less losses from financial investments decreased by US$910m on a reported basis and by US$926m on a constant currency basis, driven by the effect of significant items as follows:

- in the first half of 2013, we reported a US$1.2bn gain on disposal of available-for-sale equity securities in Asia, following the sale of our investment in Ping An; and
- in the first half of 2014, we reported a US$428m gain on disposal of available-for-sale equity securities relating to the sale of our shareholding in the Bank of Shanghai.

Excluding these items, gains less losses from financial investments decreased, primarily driven by a reduction in net gains on the disposal of debt securities. The first half of 2013 included gains on disposal of available-for-sale government debt securities in Balance Sheet Management in Europe and North America, as part of a continuing strategy to re-balance the securities portfolio for risk management purposes.

Net earned insurance premiums

Half-year to

	30 June 2014 US$m	30 June 2013 US$m	31 December 2013 US$m
Gross insurance premium income	**6,358**	6,451	5,947
Reinsurance premiums	**(221)**	(225)	(233)
Net earned insurance premiums	**6,137**	6,226	5,714

Net earned insurance premiums decreased on both reported and constant currency bases, as lower net earned premiums in Europe were mostly offset by an increase in Hong Kong.

In Europe, net earned premiums decreased, mainly in the UK, reflecting lower sales following the withdrawal of external independent financial adviser distribution channels for certain linked insurance contracts in the second half of 2013. In

addition, decreases in France reflected lower sales of investment contracts with discretionary participation features (DPF).

In Hong Kong, premium income increased due to increased new business from deferred annuity, universal life and endowment contracts, coupled with higher renewals. This was partly offset by lower new business from unit-linked contracts.

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Interim Management Report (continued)

Other operating income

	Half-year to		
	30 June	30 June	31 December
	2014	2013	2013
	US$m	US$m	US$m
Rent received	**82**	77	78
Gains/(losses) recognised on assets held for sale	**10**	(481)	(248)
Gains on investment properties	**71**	110	3
Gains on disposal of property, plant and equipment, intangible assets and non-financial investments	**3**	14	164
Gains/(losses) arising from dilution of interest in Industrial Bank and other associates and joint ventures	**(32)**	1,089	(38)
Gains on disposal of HSBC Bank (Panama) S.A.			1,107
Change in present value of in-force long-term insurance business	**200**	100	425
Other	**204**	37	195
Other operating income	**538**	946	1,686

Change in present value of in-force long-term insurance business

	Half-year to		
	30 June	30 June	31 December
	2014	2013	2013
	US$m	US$m	US$m
Value of new business	**479**	517	407
Expected return	**(286)**	(249)	(256)
Assumption changes and experience variances	**(3)**	(127)	215
Other adjustments	**10**	(41)	59
Change in present value of in-force long-term insurance business	**200**	100	425

Other operating income of US$538m decreased by US$408m on a reported basis and by US$380m on a constant currency basis.

Reported other operating income included the effects of the disposals and the reclassifications listed on page 22 of US$14m, compared with net gains of US$1.1bn which largely related to an accounting gain arising from the reclassification of Industrial Bank as a financial investment.

On an underlying basis, which excludes the effects of disposals noted on page 22, the results of disposed of operations and the effects of foreign currency translation, other operating income increased. This was primarily driven by the following significant items in the first half of 2013;

- loss of US$271m on the sale of our CML non-real estate personal loan portfolio in April 2013;
- write-off of goodwill relating to our GPB business in Monaco of US$279m; and
- a loss of US$138m on the sale of an HFC Bank UK secured loan portfolio in RBWM.

Excluding significant items, other operating income rose, reflecting gains from legacy credit in GB&M in the UK due to price appreciation across certain asset classes in the ABS market and increased favourable movements in the present value of in-force (PVIF) long-term insurance business. This was mainly in Brazil due to the non-recurrence of adverse experience variances resulting from higher lapse rates and adverse interest rate movements in the first half of 2013, while favourable movements in Asia reflected market condition updates and a rise in the value of new business. This was partly offset in France by adverse movements due to investment and market conditions.

These gains were partly offset by lower disposal and revaluation gains on investment properties in Hong Kong than in the first half of 2013.

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Net insurance claims incurred and movement in liabilities to policyholders

	Half-year to		
	30 June 2014	30 June 2013	31 December 2013
	US$m	US$m	US$m
Insurance claims incurred and movement in liabilities to policyholders:			
gross	**7,212**	6,239	7,709
reinsurers share	**(153)**	(88)	(168)
net[38]	**7,059**	6,151	7,541

For footnote, see page 96.

Net insurance claims incurred and movement in liabilities to policyholders increased by US$908m on a reported basis and by US$889m on a constant currency basis.

Movements in claims resulting from investment returns on the assets held to support policyholder contracts where the policyholder bears investment risk increased, reflecting higher investment income in Hong Kong as a result of favourable equity market movements, and higher net income on the bond portfolio in Brazil, partly offset by weaker

equity market performance in the UK. The gains or losses recognised on the financial assets designated at fair value held to support these insurance and investment contract liabilities are reported in Net income from financial instruments designated at fair value .

Reductions in claims resulting from a decrease in new business written in Europe were mostly offset by increases in Hong Kong as explained under Net earned insurance premiums .

Loan impairment charges and other credit risk provisions

	Half-year to		
	30 June 2014	30 June 2013	31 December 2013
	US$m	US$m	US$m
Loan impairment charges			

New allowances net of allowance releases	**2,581**	3,828	3,516
Recoveries of amounts previously written off	**(556)**	(639)	(657)
	2,025	3,189	2,859
Individually assessed allowances	**558**	1,121	1,199
Collectively assessed allowances	**1,467**	2,068	1,660
Releases of impairment of available-for-sale debt securities	**(214)**	(82)	(129)
Other credit risk provisions	**30**	9	3
Loan impairment charges and other credit risk provisions	**1,841**	3,116	2,733
	%	%	%
Impairment charges on loans and advances to customers as a percentage of average gross loans and advances to customers (annualised)	0.4	0.7	0.6

On a reported basis, LICs of US$1.8bn were US$1.3bn lower, primarily in Europe, Latin America and North America. Underlying LICs decreased by US$1.1bn.

On a reported basis, the percentage of impairment charges to average gross loans and advances fell to 0.4% at 30 June 2014 from 0.7% at 30 June 2013.

On a constant currency basis, LICs fell by US$1.2bn, a reduction of 39%. This was driven by a reduction in both individually assessed and collectively assessed loan impairment charges.

Individually assessed charges improved by US$590m, primarily in Europe, but also in Latin America and North America. In Europe, they were lower, mainly in CMB, reflecting improved quality in the portfolio and economic environment. In Latin America, the reduction was primarily in CMB, in particular in Mexico where impairments relating to homebuilders from a change in public housing policy were lower than in the first half of 2013. Individually assessed charges were also lower in North America, mainly in Canada in CMB.

Collectively assessed charges decreased by US$473m, primarily due to reductions in North

Interim Management Report (continued)

America and Latin America. In North America, the improvement was mainly in RBWM, reflecting lower levels of new impaired loans and reduced balances in the US run-off portfolio, though this was partly offset by lower favourable market value adjustments of the underlying properties as improvements in housing market conditions were less pronounced in the first half of 2014. In addition, collectively assessed charges in CMB and GB&M were adversely affected as we revised certain estimates used in our corporate loan impairment calculation. In Latin America, the reduction reflected the adverse effect of changes to the impairment model and assumption revisions for restructured loan

portfolios in Brazil which occurred in the first half of 2013, both in RBWM and CMB, though this was partly offset by an increase due to refinements to the impairment model for non-restructured loan portfolios, primarily in RBWM, in the first half of 2014. In addition, collectively assessed charges were lower due to reduced Business Banking provisions reflecting improved delinquency rates, and the effect of the disposal of non-strategic businesses.

Net releases of credit risk provisions were US$127m higher, primarily on available-for-sale ABSs in GB&M in Europe.

Operating expenses

		Half-year to	
	30 June	30 June	31 December
	2014	2013	2013
	US$m	US$m	US$m
Employee compensation and benefits	**9,978**	9,496	9,700
Premises and equipment (excluding depreciation and impairment)	**2,092**	2,008	2,175
General and administrative expenses	**5,035**	5,719	7,163
Administrative expenses	**17,105**	17,223	19,038
Depreciation and impairment of property, plant and equipment	**712**	699	665
Amortisation and impairment of intangible assets	**449**	477	454
Operating expenses	**18,266**	18,399	20,157

Staff numbers (full-time equivalent)

		At	
	30 June	30 June	31 December
	2014	2013	2013
Geographical regions			
Europe	**69,642**	69,599	68,334
Asia[11]	**115,111**	113,631	113,701
Middle East and North Africa	**8,530**	8,667	8,618
North America	**20,649**	21,454	20,871

Latin America	**42,157**	46,046	42,542
Staff numbers	**256,089**	259,397	254,066

For footnote, see page 96.

Reported operating expenses of US$18.3bn were US$133m or 1% lower. On an underlying basis, costs increased by 2%.

On a constant currency basis, operating expenses in the first half of 2014 were in line with the comparable period in 2013. A number of significant items recorded in the first half of 2013 did not recur, mainly:

Madoff-related litigation cost in GB&M of US$298m;

regulatory investigation provisions in GPB of US$119m; and
a customer remediation provision connected to our former CRS business of US$100m; partly offset by

an accounting gain of US$430m relating to changes in delivering ill-health benefits to certain employees in the UK.
In addition, the first half of 2014 included:

US$178m lower UK customer redress programme charges (from US$412m in the first half of 2013 to US$234m in the first half of 2014). Charges for the period included estimated redress for possible mis-selling in previous years in respect of PPI of US$194m; and

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US$156m lower restructuring and related costs (from US$238m in the first half of 2013 to US$82m in the first half of 2014).
Excluding significant items and business disposals which were primarily in Latin America, operating expenses were US$756m higher, reflecting:

- increased investment in the Risk function (including Compliance) and Global Standards of US$326m;
- inflationary pressures, including wage inflation;
- business growth in CMB, primarily in Asia; and
- the Financial Services Compensation Scheme (FSCS) levy in the UK, as a result of the timing of recognition.

During the first half of 2014, we generated further sustainable cost savings of US$0.5bn which were primarily driven by re-engineering our back office processes and which in part offset the investments listed above and inflation. These programmes, together with business disposals, contributed to a fall of 2% in average staff numbers.

Performance-related costs also fell, mainly in GB&M reflecting lower revenue.

Cost efficiency ratios[2]

	Half-year to		
	30 June 2014	30 June 2013	31 December 2013
	%	%	%
HSBC	**58.6**	53.5	66.6
Geographical regions			
Europe	**76.8**	68.5	102.7
Asia[11]	**41.4**	36.2	46.0
Middle East and North Africa	**47.4**	49.2	53.8
North America	**69.8**	70.7	75.3
Latin America	**67.8**	61.9	51.0
Global businesses			
Retail Banking and Wealth Management	**67.1**	63.6	65.4
Commercial Banking	**44.2**	42.4	43.7

Global Banking and Markets	**50.6**	47.0	58.2
Global Private Banking	**70.6**	89.9	92.7

For footnote, see page 96.

Share of profit in associates and joint ventures

		Half-year to	
	30 June	30 June	31 December
	2014	2013	2013
	US$m	US$m	US$m
Associates			
Bank of Communications Co., Limited	**978**	941	937
The Saudi British Bank	**239**	208	195
Other	**37**	43	(38)
Share of profit in associates	**1,254**	1,192	1,094
Share of profit in joint ventures	**26**	22	17
Share of profit in associates and joint ventures	**1,280**	1,214	1,111

HSBC s share of profit in associates and joint ventures was US$1.3bn, an increase of 5% on a reported basis. On a constant currency basis, it increased by 4%, driven by higher contributions from BoCom and The Saudi British Bank.

Our share of profit from BoCom rose as a result of higher trading and fee income, as well as balance

sheet growth, partly offset by higher operating expenses and a rise in loan impairment charges.

At 30 June 2014, we performed an impairment review of our investment in BoCom and concluded that it was not impaired, based on our value in use calculation (see Note 21 on the Financial Statements for further details).

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In future periods, the value in use may increase or decrease depending on whether the combined effect of changes to the current calculation assumptions is favourable or unfavourable. However, it is expected that the carrying amount will increase in the second half of 2014 due to retained profits earned by BoCom. At the point where the carrying amount exceeds the value in use, HSBC would

continue to recognise its share of BoCom s profit or loss, but the carrying amount would be reduced to equal the value in use, with a corresponding reduction in income, unless the market value has increased to a level above the carrying amount.

Profits from The Saudi British Bank rose reflecting strong, balance sheet growth.

Tax expense

	Half-year to		
	30 June	30 June	31 December
	2014	2013	2013
	US$m	US$m	US$m
Profit before tax	**12,340**	14,071	8,494
Tax expense	**(2,022)**	(2,725)	(2,040)
Profit after tax	**10,318**	11,346	6,454
Effective tax rate	**16.4%**	19.4%	24.0%

The effective tax rate for the first half of the year of 16.4% was lower than the UK corporation tax rate of 21.5%. The results for the first half of 2014 included exempt income and gains, the post tax profits of associates and joint ventures and a current tax credit

for prior years. The effective tax rate for the first half of 2013 also included tax exempt income and gains and the post tax profits of associates and joint ventures offset by the write down of a deferred tax asset.

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Interim Management Report (continued)

Consolidated balance sheet

Summary consolidated balance sheet

	At 30 June 2014 US$m	At 30 June 2013 US$m	At 31 December 2013 US$m
ASSETS			
Cash and balances at central banks	**132,137**	148,285	166,599
Trading assets	**347,106**	432,601	303,192
Financial assets designated at fair value	**31,823**	35,318	38,430
Derivative assets	**269,839**	299,213	282,265
Loans and advances to banks[3]	**127,387**	127,810	120,046
Loans and advances to customers[3,39]	**1,047,241**	938,294	992,089
Reverse repurchase agreements non-trading[3]	**198,301**	88,400	179,690
Financial investments	**423,710**	404,214	425,925
Assets held for sale	**10,248**	20,377	4,050
Other assets	**165,801**	150,804	159,032
Total assets	**2,753,593**	2,645,316	2,671,318
LIABILITIES AND EQUITY			
Liabilities			
Deposits by banks[3]	**92,764**	92,709	86,507
Customer accounts[3]	**1,415,705**	1,266,905	1,361,297
Repurchase agreements non-trading[3]	**165,506**	66,591	164,220
Trading liabilities	**228,135**	342,432	207,025
Financial liabilities designated at fair value	**82,968**	84,254	89,084
Derivative liabilities	**263,494**	293,669	274,284
Debt securities in issue	**96,397**	109,389	104,080
Liabilities under insurance contracts	**75,223**	69,771	74,181
Liabilities of disposal groups held for sale	**12,361**	19,519	2,804
Other liabilities	**122,318**	117,716	117,377
Total liabilities	**2,554,871**	2,462,955	2,480,859
Equity			
Total shareholders equity	**190,281**	174,070	181,871
Non-controlling interests	**8,441**	8,291	8,588
Total equity	**198,722**	182,361	190,459
Total equity and liabilities	**2,753,593**	2,645,316	2,671,318
Selected financial information			
Called up share capital	**9,535**	9,313	9,415

Capital resources[40,41]	**192,834**	183,450	194,009
Undated subordinated loan capital	**2,777**	2,777	2,777
Preferred securities and dated subordinated loan capital[42]	**49,644**	44,539	48,114
Risk-weighted assets CRD IV basis	**1,248,572**	n/a	1,214,939
Risk-weighted assets Basel 2.5 basis	**n/a**	1,104,764	1,092,653
	%	%	%
Financial statistics			
Loans and advances to customers as a percentage of customer accounts[3]	**74.0**	74.1	72.9
Average total shareholders equity to average total assets	**6.9**	6.4	6.6
Net asset value per ordinary share at period-end[43] (US$)	**9.64**	8.96	9.27
Number of US$0.50 ordinary shares in issue (millions)	**19,071**	18,627	18,830
Closing foreign exchange translation rates to US$:			
US$1: £	**0.586**	0.657	0.605
US$1:	**0.732**	0.767	0.726

For footnotes, see page 96.

A more detailed consolidated balance sheet is contained in the Financial Statements on page 208.

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Movement from 31 December 2013 to 30 June 2014

Total reported assets were US$2.8 trillion, 3% higher than at 31 December 2013. On a constant currency basis, total assets were US$50bn or 2% higher.

Our balance sheet remains strong with a ratio of customer advances to customer accounts of 74%. Customer advances grew by US$41bn, mainly driven by a rise in term lending in Asia. Customer accounts grew by US$38bn, mainly in Asia and Europe.

The following commentary is on a constant currency basis.

Assets

Cash and balances at central banks decreased by US$37bn, notably in Europe, in part reflecting net redemptions of debt and reductions in repurchase agreements.

Trading assets increased by 13%, mainly driven by a rise in settlement accounts, notably in Europe. These balances vary according to customer trading activity, which is typically lower at the end of the year. There were increased holdings of debt securities in Asia. In Europe, holdings of equity securities also increased, reflecting growth in our Equities business, although we recorded a reduction in reverse repos held for trading.

Financial assets designated at fair value decreased by US$7.3bn, notably in Europe, largely from the transfer to Assets held for sale of balances relating to the UK Pension business of HSBC Life (UK) Limited.

Derivative assets decreased by 6%, notably in Europe relating to interest rate contracts reflecting movements in yield curves. In Asia, foreign exchange derivative contracts also decreased, in part due to maturities.

Loans and advances to banks increased by US$6.8bn, mainly from higher placements with financial institutions in Europe, the Middle East and North Africa and Latin America.

Loans and advances to customers increased by US$41bn or 4%, largely from growth in Asia and, to a lesser extent, in Europe. In Asia, term lending to CMB and GB&M customers grew, with the latter notably relating to our Capital Financing business. Mortgage balances also increased, mainly in Hong Kong, mainland China and Taiwan. In Europe, there was a rise in corporate overdraft balances, mainly in GB&M, in accounts which are structured to allow customer corporate treasury functions to benefit

from net interest arrangements but where net settlement is not intended to occur, together with a corresponding rise in current accounts, as noted below. In addition, there was an increase from our Capital Financing business. Lending in North America was broadly unchanged, as growth in balances with CMB and GB&M customers was offset by a decline in RBWM, reflecting the continued reduction in the US run-off portfolio and the transfer to Assets held for sale of US first lien mortgage balances.

Assets held for sale increased by US$6.2bn driven by the transfer of balances relating to the UK Pension business of HSBC Life (UK) Limited, and the transfer of US first lien mortgage balances.

Liabilities

Customer accounts increased by US$38bn or 3% notably in Asia and Europe. In Asia, customer account balances increased, reflecting growth in our Payments and Cash Management business in GB&M and CMB together with a rise in RBWM, in part reflecting new Premier customers. In Europe, balances increased in RBWM reflecting customers continued preference for holding balances in current and savings accounts.

In addition, current accounts grew mainly in GB&M, in line with the increase in corporate overdraft balances as noted above in Loans and advances to customers , and in part from growth in Payments and Cash Management.

Trading liabilities rose by 9%, notably in Europe where an increase in settlement accounts reflected client activity levels, and in Asia, where there were increased positions, partly offset by a reduction in repurchase agreements held for trading.

Financial liabilities designated at fair value reduced by 8%, mainly in Europe from the transfer to Liabilities held for sale of balances relating to the UK Pension business of HSBC Life (UK) Limited.

The reduction in *derivative liabilities* was in line with that of Derivative assets as the underlying risk is broadly matched.

Debt securities in issue decreased by 9%, mainly in Europe driven by maturing debt that was not replaced.

Liabilities for disposal groups held for sale increased by US$9.5bn, mainly from the transfer of balances relating to the UK Pension business of HSBC Life (UK) Limited.

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Equity

Total shareholders equity rose by 4%, driven by profits generated in the period which were partly offset by dividends paid. In addition, the available-for-sale fair value reserve increased by US$917m on

a reported basis in the period as fair value gains recognised were partly offset by previously unrecognised fair value gains transferred to the income statement, notably relating to the disposal of our shareholding in the Bank of Shanghai.

Reconciliation of reported and constant currency assets and liabilities

	30 June 2014 compared with 31 December 2013					
	31 Dec 13 as reported	Currency translation[44]	31 Dec 13 at 30 Jun 14 exchange rates	30 Jun 14 as reported	Reported change	Constant currency change
	US$m	US$m	US$m	US$m	%	%
HSBC						
Cash and balances at central banks	166,599	2,988	169,587	132,137	(21)	(22)
Trading assets	303,192	4,496	307,688	347,106	14	13
Financial assets designated at fair value	38,430	670	39,100	31,823	(17)	(19)
Derivative assets	282,265	4,623	286,888	269,839	(4)	(6)
Loans and advances to banks[3]	120,046	524	120,570	127,387	6	6
Loans and advances to customers[3]	992,089	13,803	1,005,892	1,047,241	6	4
Reverse repurchase agreements non-trading[3]	179,690	2,317	182,007	198,301	10	9
Financial investments	425,925	2,955	428,880	423,710	(1)	(1)
Assets held for sale	4,050	23	4,073	10,248	153	152
Other assets	159,032	(297)	158,735	165,801	4	4
Total assets	2,671,318	32,102	2,703,420	2,753,593	3	2
Deposits by banks[3]	86,507	1,130	87,637	92,764	7	6
Customer accounts[3]	1,361,297	16,739	1,378,036	1,415,705	4	3
Repurchase agreements non-trading[3]	164,220	2,090	166,310	165,506	1	
Trading liabilities	207,025	2,353	209,378	228,135	10	9
Financial liabilities designated at fair value	89,084	1,123	90,207	82,968	(7)	(8)
Derivative liabilities	274,284	4,693	278,977	263,494	(4)	(6)
Debt securities in issue	104,080	1,968	106,048	96,397	(7)	(9)
Liabilities under insurance contracts	74,181	218	74,399	75,223	1	1
Liabilities of disposal groups held for sale	2,804	15	2,819	12,361		
Other liabilities	117,377	1,032	118,409	122,318	4	3

Total liabilities	**2,480,859**	**31,361**	**2,512,220**	**2,554,871**	**3**	**2**
Total shareholders equity	**181,871**	**722**	**182,593**	**190,281**	**5**	**4**
Non-controlling interests	**8,588**	**19**	**8,607**	**8,441**	**(2)**	**(2)**
Total equity	**190,459**	**741**	**191,200**	**198,722**	**4**	**4**
Total equity and liabilities	**2,671,318**	**32,102**	**2,703,420**	**2,753,593**	**3**	**2**

For footnotes, see page 96.

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In the second half of 2013, GB&M changed the way it managed repo and reverse repo activities in the Credit and Rates businesses. Previously, they were managed in the trading environment; during the second half of 2013, they were organised into trading and non-trading portfolios, with separate risk management procedures. This resulted in an increase in the amount of Non-trading reverse repos and a decline in the amount classified as Trading assets , and an increase in the amount of Non-trading repos and a decline in the amount classified as Trading liabilities at 31 December 2013 compared with previous period-ends.

From 1 January 2014, non-trading reverse repos and repos are presented as separate lines in the balance sheet to align disclosure with market

practice and provide more meaningful information in relation to loans and advances. Previously, non-trading reverse repos were included within Loans and advances to banks and Loans and advances to customers and non-trading repos were included within Deposits by banks and Customer accounts . Comparative data have been re-presented accordingly.

The effect of repos and reverse repos on the balance sheet is set out in the table below. The table also provides a combined view of customer lending and customer deposits which, by taking into account loans and advances to customers and customer account balances reported as held for sale, more accurately reflects the overall size of our lending and deposit books.

Combined view of customer lending and customer deposits[3]

	At 30 June 2014	At 30 June 2013	Change	At 30 June 2014	At 31 December 2013	Change
	US$m	US$m	%	US$m	US$m	%
Customers amortised cost						
Loans and advances to customers	**1,047,241**	938,294	12	**1,047,241**	992,089	6
Loans and advances to customers reported as held for sale[45]	**1,658**	13,808	(88)	**1,658**	1,703	(3)
Reverse repurchase agreements non-trading	**80,710**	31,088	160	**80,710**	88,215	(9)
Combined customer lending	**1,129,609**	983,190	15	**1,129,609**	1,082,007	4
Customer accounts	**1,415,705**	1,266,905	12	**1,415,705**	1,361,297	4
Customer accounts reported in Liabilities of disposal groups held for sale	**4,880**	17,280	(72)	**4,880**	2,187	123
Repurchase agreements non-trading	**104,902**	49,277	113	**104,902**	121,515	(14)
Combined customer deposits	**1,525,487**	1,333,462	14	**1,525,487**	1,484,999	3
Banks amortised cost						
Loans and advances to banks	**127,387**	127,810		**127,387**	120,046	6
Reverse repurchase agreements non-trading	**117,591**	57,312	105	**117,591**	91,475	29
Combined bank lending	**244,978**	185,122	32	**244,978**	211,521	16
Deposits by banks	**92,764**	92,709		**92,764**	86,507	7

Repurchase agreements non-trading	**60,604**	17,314	250	**60,604**	42,705	42
Combined bank deposits	**153,368**	110,023	39	**153,368**	129,212	19
Customers and banks fair value						
Trading assets reverse repos	**4,485**	104,273	(96)	**4,485**	10,120	(56)
loans and advances to customers	**3,945**	53,044	(93)	**3,945**	7,180	(45)
loans and advances to banks	**540**	51,229	(99)	**540**	2,940	(82)
Trading liabilities repos	**5,189**	134,506	(96)	**5,189**	17,421	(70)
customer accounts	**1,365**	100,100	(99)	**1,365**	9,611	(86)
deposits by banks	**3,824**	34,406	(89)	**3,824**	7,810	(51)

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Customer accounts by country[3]

	At 30 June 2014 US$m	At 30 June 2013 US$m	At 31 December 2013 US$m
Europe	**614,776**	520,984	581,933
UK	**499,295**	410,971	462,796
France[46]	**47,347**	43,246	45,149
Germany	**15,912**	17,251	16,615
Malta	**6,216**	5,797	6,222
Switzerland	**11,073**	18,779	16,796
Turkey	**8,492**	7,537	7,795
Other	**26,441**	17,403	26,560
Asia[11]	**570,221**	516,616	548,483
Hong Kong	**381,058**	342,632	365,905
Australia	**20,803**	18,240	19,812
India	**12,155**	9,852	11,549
Indonesia	**5,979**	6,559	5,865
Mainland China	**41,198**	37,843	40,579
Malaysia	**17,570**	16,899	17,093
Singapore	**45,885**	44,145	43,988
Taiwan	**14,609**	12,053	12,758
Other	**30,964**	28,393	30,934
Middle East and North Africa			
(excluding Saudi Arabia)	**40,082**	41,142	38,683
Egypt	**6,945**	7,158	7,401
Qatar	**3,236**	4,065	2,861
UAE	**19,840**	18,822	18,433
Other	**10,061**	11,097	9,988
North America	**136,774**	136,693	140,809
US	**79,536**	80,340	80,037
Canada	**46,197**	45,455	47,872
Bermuda	**11,041**	10,898	12,900
Latin America	**53,852**	51,470	51,389
Argentina	**4,168**	4,940	4,468
Brazil	**27,068**	25,515	23,999
Mexico	**20,112**	19,327	21,529
Other	**2,504**	1,688	1,393
	1,415,705	1,266,905	1,361,297

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Financial investments

	At 30 June 2014			At 30 June 2013			At 31 December 2013		
	Securities			Securities			Securities		
	Equity US$bn	Debt US$bn	Total US$bn	Equity US$bn	Debt US$bn	Total US$bn	Equity US$bn	Debt US$bn	Total US$bn
Balance Sheet Management		311.3	311.3		279.1	279.1		314.4	314.4
Insurance entities		48.4	48.4		44.0	44.0		46.4	46.4
Structured entities	0.1	18.5	18.6	0.1	23.5	23.6	0.1	22.6	22.7
Principal Investments	2.4		2.4	2.9		2.9	2.7		2.7
Other	6.2	36.8	43.0	6.4	48.2	54.6	6.3	33.4	39.7
	8.7	415.0	423.7	9.4	394.8	404.2	9.1	416.8	425.9

The table above analyses the Group s holdings of financial investments by business activity. Further information can be found in the following sections:

Balance Sheet Management (page 161) for a description of the activities and an analysis of third-party assets in balance sheet management.

Risk management of insurance operations (page 169) includes an analysis of the financial investments within our insurance operations by the type of contractual liabilities that they back.

Structured entities (page 550 of the *Annual Report and Accounts 2013*) for further information about the nature of securities investment conduits in which the above financial investments are held.

Equity securities classified as available for sale (page 161) includes private equity holdings and other strategic investments.

Other represents financial investments held in certain locally managed treasury portfolios and other GB&M portfolios held for specific business activities.

Reconciliation of RoRWA measures

Performance Management

We target a return on average ordinary shareholders equity of 12% to 15%. For internal management purposes we monitor global businesses and geographical regions by pre-tax return on RWAs, a metric which combines return on equity and regulatory capital efficiency objectives.

In addition to measuring return on average risk-weighted assets (RoRWA), we measure our performance internally using underlying RoRWA, which is underlying pre-tax return and reported average RWAs at constant currency and adjusted for the effects of business disposals. Underlying RoRWA adjusts performance for certain items which distort year-on-year performance as explained on page 22. RoRWAs are calculated using average RWAs based on a Basel 2.5 basis for all periods up to and including 31 December 2013 and on a CRD IV end point basis for 31 March 2014 and 30 June 2014.

Legacy credit in GB&M includes securitisation positions that were previously deducted from capital and are now included as RWAs, risk-weighted at 1,250% under the CRD IV end point basis.

We also present underlying RoRWA adjusted for the effect of operations which are not regarded as contributing to the longer-term performance of the Group. These include the run-off portfolios and the CRS business which was sold in May 2012.

The CRS average RWAs in the table below represent the average of the associated operational risk RWAs that were not immediately released on disposal and have not already been adjusted as part of the underlying RoRWA calculation. The pre-tax loss for CRS in the table below relates to litigation expenses that occurred after the sale of the business that have not been adjusted as part of the underlying RoRWA calculation.

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Reconciliation of underlying RoRWA (excluding run-off portfolios and Card and Retail Services)

	Half-year to 30 June 2014		
	Pre-tax return	**Average RWAs[47]**	**RoRWA[47,48]**
	US$m	**US$bn**	**%**
Reported	**12,340**	**1,200**	**2.1**
Underlying[48]	**12,560**	**1,197**	**2.1**
Run-off portfolios	**343**	**122**	**0.6**
Legacy credit in GB&M	**307**	**48**	**1.3**
US CML and other[49]	**36**	**74**	**0.1**
Card and Retail Services		**1**	
Underlying (excluding run-off portfolios and Card and Retail Services)	**12,217**	**1,074**	**2.3**

	Half-year to 30 June 2013			Half-year to 31 December 2013		
	Pre-tax return	Average RWAs[47]	RoRWA[47,48]	Pre-tax return	Average RWAs[47]	RoRWA[47,48]
	US$m	US$bn	%	US$m	US$bn	%
Reported	14,071	1,109	2.6	8,494	1,099	1.5
Underlying[48]	13,017	1,084	2.4	8,627	1,093	1.6
Run-off portfolios	7	135		67	113	0.1
Legacy credit in GB&M	157	36	0.9	33	30	0.2
US CML and other[49]	(150)	99	(0.3)	34	83	0.1
Card and Retail Services		5			2	
Underlying (excluding run-off portfolios and Card and Retail Services)	13,010	944	2.8	8,560	978	1.7

For footnotes, see page 96.

Reconciliation of reported and underlying average risk-weighted assets

Half-year to					
30 Jun 2014	30 Jun 2013	Change	**30 Jun 2014**	31 Dec 2013	Change
US$bn	US$bn	%	**US$bn**	US$bn	%

Average reported RWAs[47]	**1,200**	1,109	8	**1,200**	1,099	9
Currency translation adjustment[44]		2			4	
Acquisitions, disposals and dilutions	**(3)**	(27)		**(3)**	(10)	
Average underlying RWAs	**1,197**	1,084	10	**1,197**	1,093	10

For footnotes, see page 96.

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Interim Management Report (continued)

Ratios of earnings to combined fixed charges (and preference share dividends)

	Half-year to 30 June 2014	Year ended 31 December 2013	2012	2011	2010	2009
Ratios of earnings to combined fixed charges:[1]						
excluding interest on deposits	**4.19**	3.84	3.03	2.82	2.71	1.53
including interest on deposits	**2.14**	2.09	1.76	1.68	1.73	1.22
Ratios of earnings to combined fixed charges and preference share dividends:[1]						
excluding interest on deposits	**3.82**	3.50	2.79	2.64	2.56	1.48
including interest on deposits	**2.07**	2.01	1.71	1.64	1.69	1.20

1 *For the purpose of calculating the ratios, earnings consist of income from continuing operations before taxation and non-controlling interest plus fixed charges and after deduction of the unremitted pre-tax income of associated undertakings. Fixed charges consist of total interest expense, including or excluding interest on deposits, as appropriate, dividends on preference shares and other equity instruments, as applicable, and the proportion of rental expense deemed representative of the interest factor.*

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Interim Management Report (continued)

Global businesses

Summary

HSBC reviews operating activity on a number of bases, including by geographical region and by global business.

The commentaries below present global businesses followed by geographical regions (page 61).

Performance is discussed in this order because certain strategic themes, business initiatives and trends affect more than one geographical region. All commentaries are on a constant currency basis (see page 19) unless stated otherwise.

Basis of preparation

The results of global businesses are presented in accordance with the accounting policies used in the preparation of HSBC s consolidated financial statements. Our operations are closely integrated and, accordingly, the presentation of global business data includes internal allocations of certain items of income and expense. These allocations include the costs of certain support services and global functions to the extent that these can be meaningfully attributed to operational business lines. While such allocations have been made on a systematic and consistent basis, they necessarily involve a degree of subjectivity. Those costs which are not allocated to global businesses are included in Other .

Where relevant, income and expense amounts presented include the results of inter-segment funding as well as inter-company and inter-business line transactions. All such transactions are undertaken on arm s length terms.

The expense of the UK bank levy is included in the Europe geographical region as HSBC regards the levy as a cost of being headquartered in the UK. For the purposes of the segmentation by global businesses, the cost of the levy is included in Other .

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Interim Management Report (continued)

Profit/(loss) before tax

	Half-year to					
	30 June 2014		30 June 2013		31 December 2013	
	US$m	**%**	US$m	%	US$m	%
Retail Banking and Wealth Management	**3,045**	**24.7**	3,267	23.2	3,382	39.8
Commercial Banking	**4,771**	**38.7**	4,133	29.4	4,308	50.7
Global Banking and Markets	**5,033**	**40.8**	5,723	40.7	3,718	43.8
Global Private Banking	**364**	**2.9**	108	0.8	85	1.0
Other[50]	**(873)**	**(7.1)**	840	5.9	(2,999)	(35.3)
	12,340	**100.0**	14,071	100.0	8,494	100.0

Total assets[51]

	At 30 June 2014		At 30 June 2013		At 31 December 2013	
	US$m	**%**	US$m	%	US$m	%
Retail Banking and Wealth Management	**523,729**	**19.0**	504,205	19.1	517,085	19.4
Commercial Banking	**377,374**	**13.7**	350,503	13.2	360,623	13.5
Global Banking and Markets	**2,043,767**	**74.2**	1,992,770	75.3	1,975,509	74.0
Global Private Banking	**99,379**	**3.6**	114,883	4.3	97,655	3.7
Other	**170,802**	**6.2**				